

OVERSEAS NEWS

Polish ship hit as naval force gathers in Suez

BY TONY WALKER IN CAIRO

AN INTERNATIONAL naval force of minesweepers and support craft is gathering in the Red Sea and the Gulf of Suez to assist Egypt in clearing mines that have damaged at least 17 ships since July 9.

Israeli Government denies Lebanon pull-out plan

BY DAVID LENNON IN TEL AVIV

ISRAEL'S FORCES could be withdrawn from Lebanon within two months, according to Israel Radio. But the interim government has no intention of taking any decision on a pull-back at this stage.

Gandhi may extend direct rule in Punjab

By John Elliott in New Delhi

FACED WITH continuing violence and political uncertainty in the Punjab, the India Government is finalising plans for constitutional changes which would enable it to continue to run the predominantly Sikh state without democratic institutions for another year.

Brazilians select leadership rivals

BY ANDREW WHITLEY IN RIO DE JANEIRO

BRAZIL'S two leading political parties, the government-backed Partido Democratico Social and the Opposition Partido do Movimento Democratico Brasileiro formally selected their candidates on the weekend for the electoral college which meets in January to choose the country's next leader.

Coincidentally next week marks the 30th anniversary of the suicide—in office—of President Vargas, a populist and ardent nationalist whose death traumatised the country at the time.

Kohl hits out at 'senseless propaganda'

By Jonathan Carr in Bonn

CHANCELLOR Helmut Kohl has sharply rejected a Soviet Press Agency's "revelation" in West Germany, and stressed that his Government will continue to fulfil its treaty commitments with Moscow.

'Do-nothing' Democrats attacked

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan used a weekly radio address to the nation to lash out at the Democrats for blocking Congressional legislation that he said was favoured by "the overwhelming majority of Americans."

President seeks reshuffle in Costa Rica

By Tim Cooney in Managua

PRESIDENT MONGE of Costa Rica has called for the resignation of his entire Cabinet with the aim of carrying out a major reshuffle.

U.S. may sell more missiles to Saudis

BY OUR U.S. EDITOR IN WASHINGTON

THE State Department confirmed at the weekend that the U.S. is discussing new arms sales to Saudi Arabia, including the supply of additional air-to-air Sidewinder missiles.

Poll setback for Mitterrand

BY DAVID MARSH IN PARIS

PRESIDENT Francois Mitterrand has faced an initial setback in his hopes of winning back the political centre after last month's formation of a new French government excluding the Communists.

Turkey raises interest rates

Turkey has raised interest rates less than one week after a team from the International Monetary Fund left the country amid official denials that Ankara had breached monetary guidelines agreed with the Fund, writes David Barchard from Ankara.

Greece to buy more arms

By Anonima Ierodiakonou in Athens

GREECE PLANS to place further orders for military equipment in addition to buying 100 fighter aircraft by the end of 1984, Mr Antonis Drosouliadis, the Greek alternate Defence Minister, announced at the weekend.

WORLD TRADE NEWS

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By Anonima Ierodiakonou in Athens

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BURDEN SHIFTS TO COAL Polish engineering export sales plummet

BY LESLIE COLTIT IN WARSAW

POLAND is being forced to rely more on sales of coal exports to earn foreign exchange, as demand for Polish engineering exports has plummeted.

Singapore-Colombo flights row

BY OUR SINGAPORE CORRESPONDENT

A BITTER row has broken out between Singapore International Airlines and Air Lanka of Sri Lanka over air services between Singapore and Colombo.

SHIPPING REPORT Charterers hold whip hand

Financial Times Reporter

QUIET conditions in the tanker market persisted last week and even renewed attacks in the Gulf seem to have passed without any repercussions being felt.

Ultramar cancels ships order

By David Lawson

DELIVERY delays have led Ultramar, the energy and shipping group, to cancel five bulk carriers being built by a Spanish shipyard.

WORLD ECONOMIC INDICATORS

Table with columns for Country, Year, and % change over previous. Rows include West Germany, France, Italy, Netherlands, Belgium, U.S., and Japan.

Rheumatism drug ban demand rejected THE anti-rheumatic drugs Butazolidin and Tandaril products of the Swiss pharmaceutical group Ciba-Geigy, are to remain on sale in the U.S., following the rejection of a consumer organisation's petition to have the drugs banned, John Wicks reports from Zurich.

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UK NEWS

BR warned not to 'alienate' trade unions

By Our Labour Staff

MR BOB REID, chairman of British Rail, was yesterday warned he would alienate the trade union movement if he persisted in urging 120,000 railmen to ignore their union leaders and work normally. Mr Charles Turnock, senior assistant general secretary of the National Union of Railwaymen (NUR), said "I am surprised someone like Bob Reid, who has been in the rail industry so long, is displaying this attitude. Approaching workers over the heads of their unions in this way has happened in other industries but I never thought it would come about in the rail industry and it is sad that it now has."

Sinclair Research to go public in 1985

BY JASON CRISP

SINCLAIR Research, the leading British home computer company founded and owned by Sir Clive Sinclair, plans to go public on the London Stock Exchange early next year, probably in February. The flotation, once scheduled for early this year, had to be put back following problems in the U.S. and a succession of delays with new product launches in the UK.

Mr Reid has warned that industrial action could harm BR's £208m investment in electrification of the east coast main line, which was approved last month by Mr Nicholas Ridley, the Transport Secretary, and which BR has to fund without outside help. The threatened action comes at a time when BR has emerged from years of gloom with record profits and an optimistic view of the future. The railways achieved a group surplus of £3m last year, after a £175m loss in strike-torn 1982 and a £82m operating profit, the highest since BR was formed 22 years ago.

Sinclair Research's equity in January have been concerned about the lack of growth in profits and the bad publicity which has surrounded the company this year. The reasons for the poor growth have been the loss of royalty revenues from the U.S. and the high costs of launching new products in the year. Last year Timex, which sold Sinclair home computers in the U.S., withdrew from the market in the wake of a price war.

In Britain Sinclair Research launched its black-and-white pocket television set and the QL computer, the sales of which are only just starting to build up. Sir Clive, who has been spending a large amount of time on an electric car project unconnected with Sinclair Research wants to be seen to be closely involved again with the company's activities. He is seeking to reassure potential investors that the company is still benefiting from his innovative abilities.

His major concern is the so-called "fifth generation" of computers. Most of the work being done by Sinclair's research team in Cambridge is on this project, which will take the company into much broader areas of computing. Sir Clive wants Sinclair Research to become one of the world's ten leading computer groups within five to ten years, with an annual turnover of around \$50m.

Outlook for civil engineering still poor

By Joan Gray, Construction Correspondent

THE WORKLOADS of Britain's civil engineering companies are picking up, but the outlook is still gloomy, according to the latest survey from the Federation of Civil Engineering Contractors (FCEC). The FCEC found that 9 per cent of the 224 member companies it surveyed had no civil engineering work on their books at present, compared with 14 per cent in its last workload survey three months ago. The present recovery is restricted to the very largest companies, employing more than 1,000 people. These all said they now had civil engineering work on their books. Smaller companies are still suffering from reduced order books, with 25 per cent of those companies employing between 500 and 1,000 people having no civil engineering work at present. "The improvement is pretty marginal when you look at the way it is distributed," Mr Jack Bowen FCEC deputy director general, said. "The slight improvement in order books for larger companies is welcome, but it is from such a low base that you can't wave any flags yet."

BA in tough route challenge

FINANCIAL TIMES REPORTER

THE FIERCE fight by the UK independent airlines to take over routes from British Airways (BA) showed little sign of easing after apparent concessions by the state-owned carrier at the weekend. BA said on Saturday it would not oppose the recent applications by British Caledonian (BCal) to compete alongside it on 12 international routes. Mr Colin Marshall, chief executive of BA said yesterday: "British Airways has challenged British Caledonian to come alongside us on any route it wants to fly."

BCal and BA shows little sign of abating. Sir Adam Thomson, chairman of BCal, said at the weekend: "We welcome this shift in the BA position. They appear to recognise the need for a number of British airlines to compete with each other in the consumer interest. But their statement has a hollow ring. Airlines cannot compete unless they have equal access to the market, not just a section of it, the size of which is being decided by BA."

BA remains strongly opposed to BCal's application to replace the state-owned airline on a further 10 routes or to give up a half share of the traffic on the routes where it wants to compete alongside. BA says it does not object to "fair competition" on any of the 28 routes. The move was the first concession by BA since the Civil Aviation Authority (CAA) made its controversial proposals for restructuring the industry in a report to the Government. It recommended transferring some of BA's routes to the independent carriers. The Government has set up a cabinet committee to try to settle the row. But the war of words between

Backing for trade body

BY ERIC SHORT

INSURANCE COMPANIES operating in the UK have given overwhelming support to the formation of a new trade body - the Association of British Insurers (ABI). A special meeting last week of member companies of the British Insurance Association (BIA), at present the main insurance body, gave approval to the establishment of the ABI. At present there are more than 10 separate and largely autonomous associations covering various sections of the insurance industry, this proliferation arisen primarily from the way the industry developed earlier in the century. The BIA has been considering for

some time how insurance companies can organise a trade structure that will be effective under current conditions. Its aim has been to create one powerful representative body that would make an impact on Government, politicians and the public, operated by an effective permanent staff of high calibre people under a chief executive. The result of these deliberations is the proposed formation of the ABI, a unified body headed by a leading figure in the UK insurance industry. General insurance (short-term) and life and pensions (long-term) would have separate functions within the unified structure.

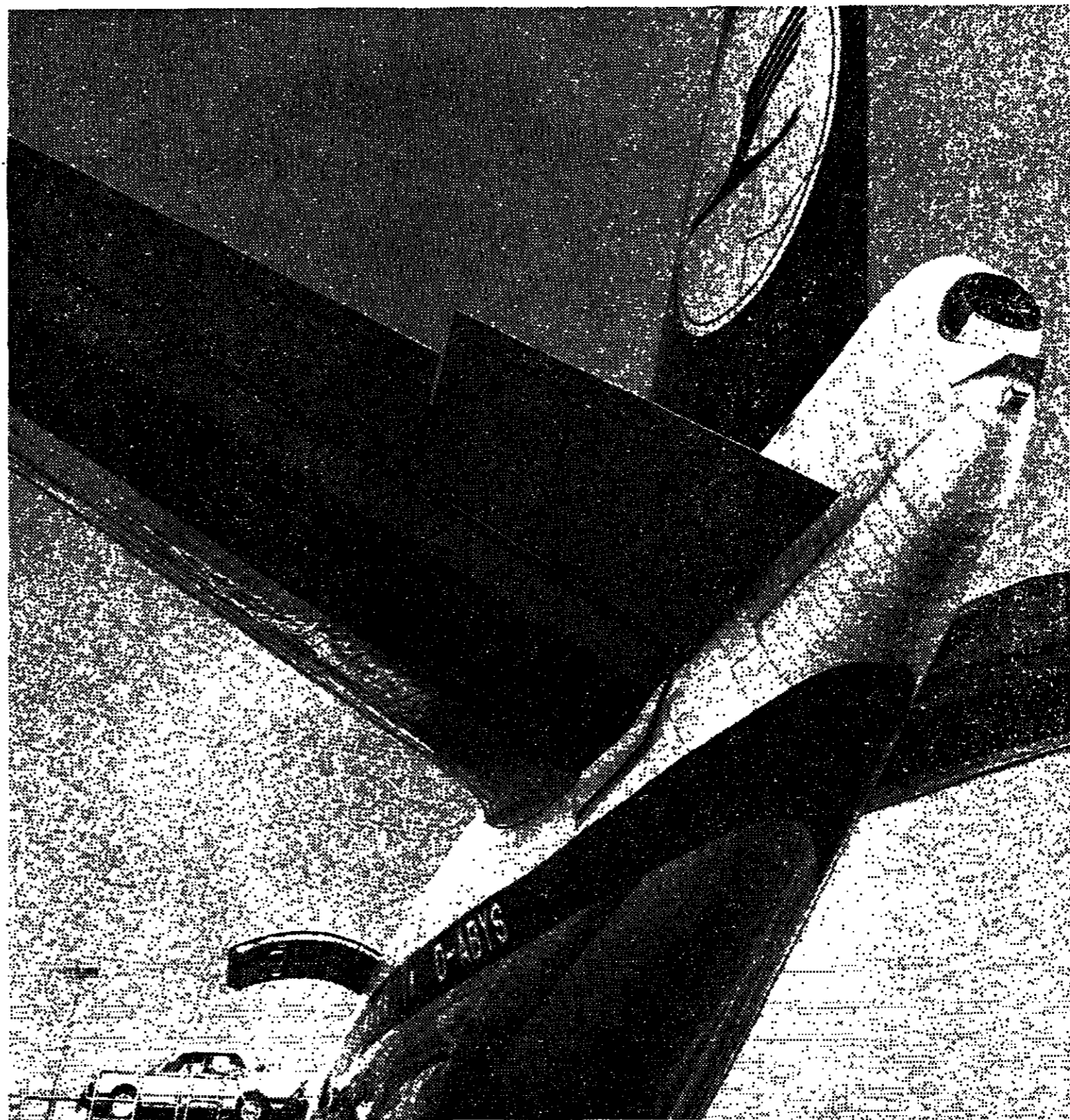
Gilts market faces 'astronomic change'

BY MICHAEL PROWSE

BRITAIN'S gilt-edged (government security) market is to be refashioned in the image of the U.S. Treasury bond market. The Council of the London Stock Exchange has published details of a new dealing structure which would be introduced after the abolition of minimum commissions in 1988. The proposals follow extensive consultation with the Bank of England and with market practitioners. Mr Mike Higgins, a partner at W. Cresswell, a leading gilts-broker, said the proposals amounted to "an astronomic change". The new dealing system is an elaboration of proposals in the stock exchange's April discussion paper, which met with a "broadly favourable" response. The council suggests there should be four types of firm in the new-look gilt market - broker-dealers, market makers, inter-dealer-brokers and money brokers. All would be stock exchange members and subject to its regulation. Broker/dealers would be able to act as both principal and agent although many are expected to choose to act only as agents. Market makers would be broker/dealers who enter into a dealing relationship with the Bank of England and who undertake to make two-way prices in gilts on demand. The council suggests that they should make continuous markets in a full range of securities, although a limited degree of specialisation may be permitted initially. Market makers will tend to act mainly as principals and will have direct access to the Bank of England. They will be the equivalent of U.S. primary dealers. The third type of firm operating in the new gilt market will be the inter-dealer-brokers (IDBs). They will transact deals between the market-makers, enabling them to keep their positions hidden and to redistribute their risks. In New York, much of Treasury bond trading is through IDBs, as market makers undo their customers' trades and hedge parts of their book.

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Yorkshire Bank Base Rate With effect from 13th August 1984 Base Rate will be changed from 11½% to 11% p.a. Yorkshire Bank Yorkshire Bank PLC Registered No. 117413 England Registered Office: 20 Merton Way Leeds LS2 8NZ

Lufthansa German Airlines

UK NEWS

One killed in clash over banned IRA fund raiser

BY OUR BELFAST CORRESPONDENT

ONE MAN died and several other people were seriously injured yesterday when violence flared during an attempt by police to arrest an IRA supporter banned from entering the UK at a rally in West Belfast.

resembling Martin Galvin appeared on the platform. Police moved in in an effort to make an arrest.

Stereotypes tailor-made for success

Carla Rapoport finds little to enthuse about the best-dressed business leaders



BEST DRESSED BUSINESS PEOPLE (in alphabetical order)

- Gianni Agnelli
Betsy Bloomingdale
Alain Chevalier
Richard Giordano
Lord Hanson
John and Christina de Lorean
John Opel
Karl Otto Pöhl
Barbara Thomas
Mario D'Urso

BORING, totally boring, is how the world's major fashion houses classify the clothes that high-powered business men and women wear.

dates for any best-dressed list by international standards. Of the two, the undisputed champion of business fashion is Gianni Agnelli, chairman of the Fiat Group.

In the U.S. where three women join the list, Betsy Bloomingdale is something of a cheat because, as an owner of New York's well-known department store, she is associated with the fashion business.

Peter Marsh looks at the mission by a group of British astronauts

Spacefarer - just another job

COMMANDER PETER Longhurst puts astronaut training on a par with learning to live in a submarine or driving a tank.

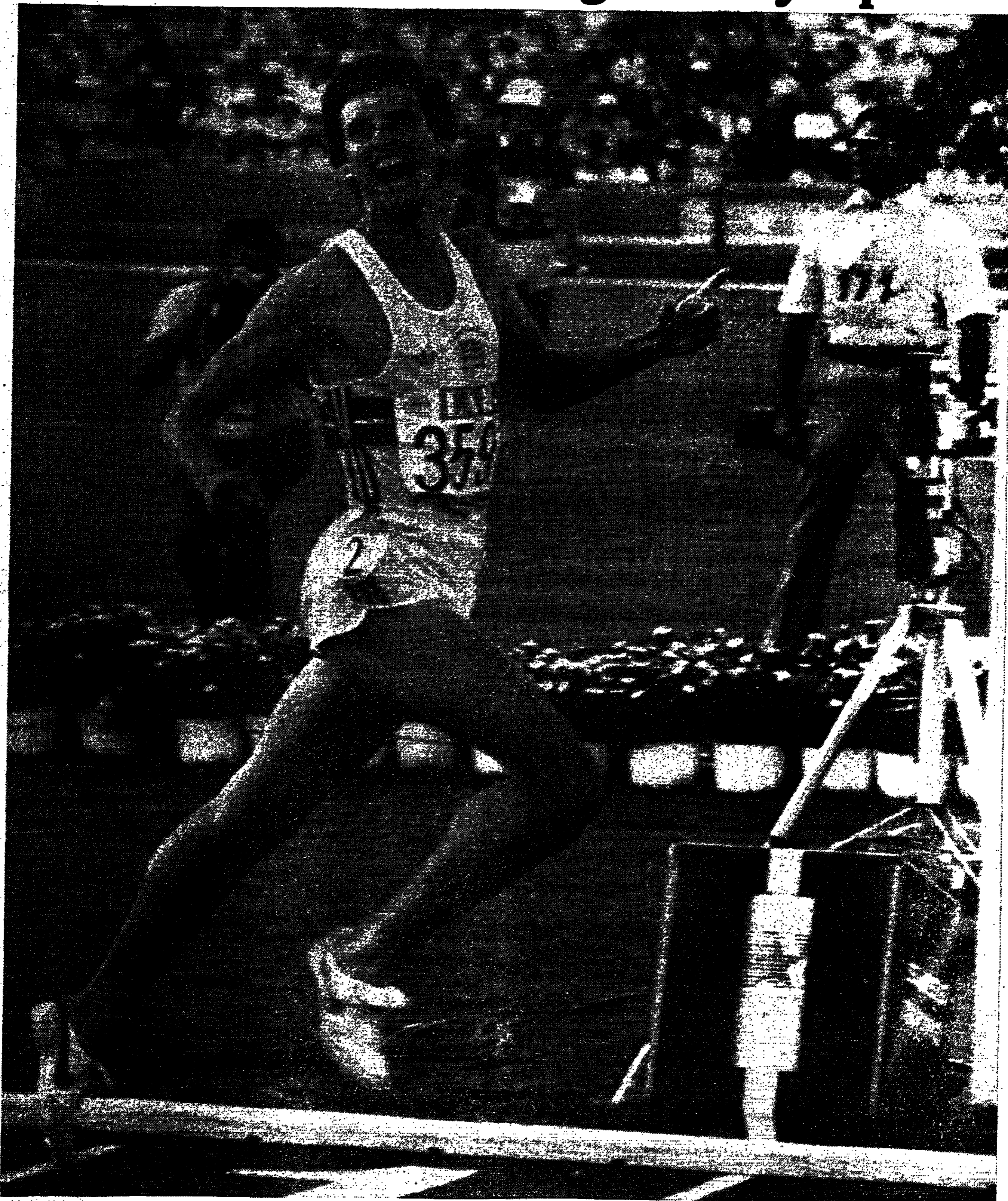
officially part of the distinctly unglamorous procurement executive of the MoD.

To launch the spacecraft will take up only a fraction of the time of each flight. The team is examining scientific experiments that it could carry out during the rest of the mission.

Table with 20 columns of numbers for Petroleos Mexicanos bonds. Includes a notice of mandatory redemption and a list of names for best-dressed business people.

Advertisement for Kleinwort Benson featuring a BMW 4 door 3 Series car. Text includes 'Who shall we go? Who else but Kleinworts.', 'Kleinwort Benson has been developing international trade and promoting financial productivity for almost two centuries.', and 'The report concludes that the outlook for inflation is poor, as pay settlements look as though they will remain above the rate of price increases, in the 5 to 7 per cent bracket.'

Yesterday, one of our research team won a Gold in the Los Angeles Olympics.



As well as being a Gold Medal winner in the 1,500 metres, Sebastian Coe is part of ICI Fibres' Record team. A group of leading sportsmen and women who are helping us develop fibres and yarns specifically for sportswear. In Los Angeles, the British athletes, along with 12 other national teams, are

wearing kit containing advanced new fibres, like Terinda polyester. These fibres have moisture transportation properties which enable special fabrics to be designed to keep athletes comfortable. Our aim is to improve performance and, judging by yesterday's result, we're succeeding.



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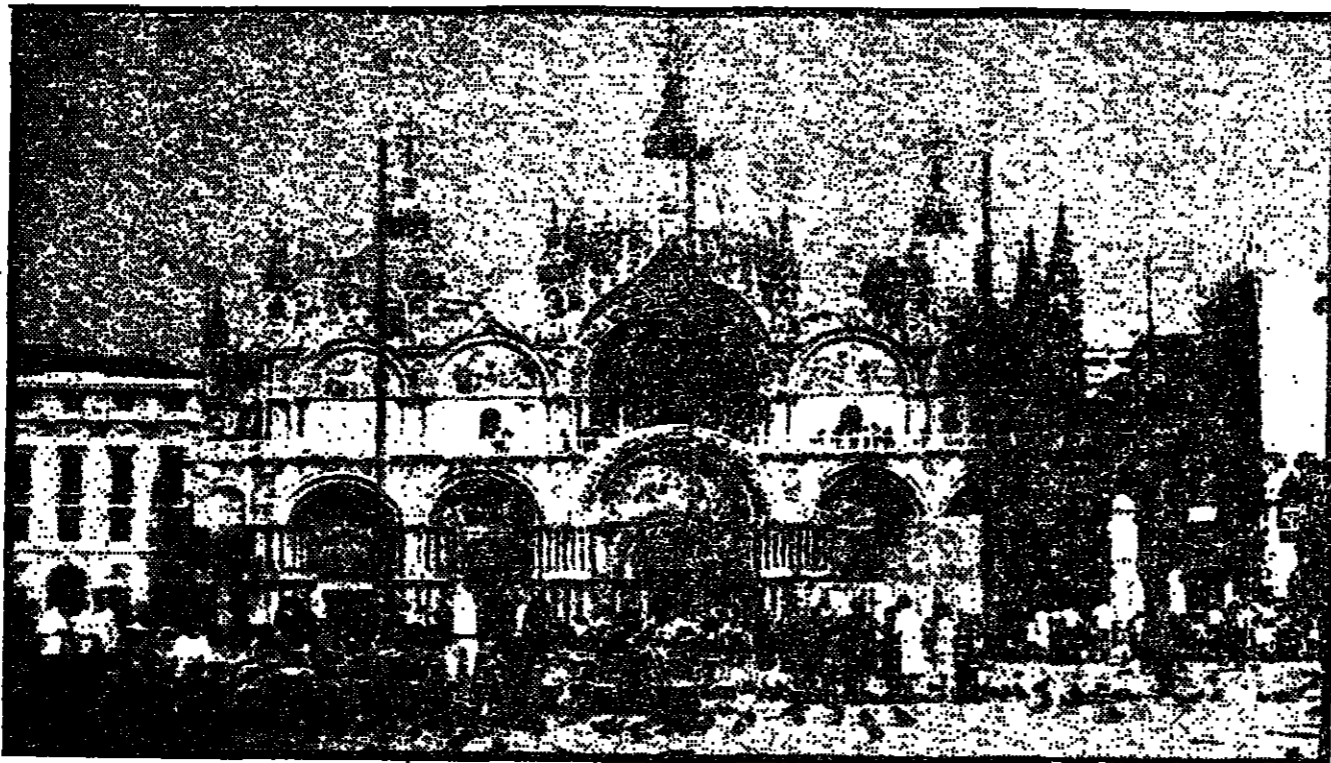
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TAX BEN
E EXPORT

THE ARTS

Architecture
Colin Amery

Guided tours and leading lights

One of the most agreeable summer pleasures is the leisurely contemplation of architectural masterpieces. To assist the casual observer on his travels it is essential to have the company of a good guide book. One of those who had the time and cool expertise to explore and explain great buildings was John Ruskin. He was in Venice between 1849 and 1851 and compiled six hundred pages of notes and drawings about the glories of St Mark's. Much of this perspective observation has remained unpublished until now when a remarkable new book has been compiled from this material. Ruskin and St Mark's by John Unrau (Thames and Hudson, £12.50) which must become the definitive handbook for visitors to the basilica.



Facade of St. Mark's Basilica, Venice

Ruskin was one of the most visually acute writers about architecture; he looked analysed, measured and drew and was not afraid to make strong judgments. Sensitive architects today should count themselves lucky Ruskin died before the arrival of the illiterate Modern Movement. He also had a great gift of evocation; his writings about St Mark's in the Stones of Venice are poetic almost cinematic, conveying the intensity of that first glimpse of the "arches that seem fringed with foam." Of course, much of the polemic in Ruskin's writings is often absurd and Unrau has selected carefully to present an even-handed picture.

Today the colours of the interior are probably better than they were in the 19th century—the film of lamplight has been removed. Unrau's photographs alone are a good reason to buy this book—they are exceptional.

There are no maps, plans or sections. It is not the editors' fault that this is such a bleak period to classify but the paucity of adequate language to describe the individual entries clearly lies with them. For the Festival of Architecture the Royal Institute has published an informative and useful short guide to their own headquarters in London, 66 Portland Place by Margaret Richardson (RIBA Publications Limited £2.95). The designer of the fine and elegant premises was selected by an architectural competition in 1931 and this was won by G. Grey Wormum with a design that was clearly influenced by the then prevalent Scandinavian classicism. This excellent small book tells the story of the construction of this London building with fascinating glimpses of the team of artists and craftsmen that the

architect assembled to decorate his conception. This must have been one of the last public buildings to employ so many young artists, Edward Bainbridge-Copnell and James Woodford were both interesting sculptors and Jan Jut's engraved glass stands the test of time. Margaret Richardson has a gift of condensing a long and detailed story into the small format of this guide. It is a model modest book that should set the standard for other small publications on individual buildings.

The individual monograph on the work of one architect or one practice has now reached the status of an art form in itself. The very best are usually produced by American PhD thesis writers who then turn their extensive research into words for other scholars. These are monuments of scholarship if not readability. A promising new series has recently been launched by the publishers George Allen and Unwin under the collective title, Genius of Architecture. To date there have been four titles, *Athenian Stuart* by David Watkin; *William Talman* by John Harris; *Axel Haig* by J. Mordaunt Crook and now the very latest is *Sir Robert Taylor* by Marcus Binney (George Allen and Unwin, £5.95). Taylor is one of those English architects who bridge that awkward gap between the Rococo and the Neo-Classical. He is best known for his elegant villas like *Harleyford* (now scandalously vandalised and surrounded by hideous caravans near Henly-upon-Thames), *Barlston Hall*, *Aspell House*, *Sharpsham* and the much larger and more important country house *Eveningham Hall* in Suffolk.

Handel/Radio 3

Andrew Clements

There was a time, and not so very long ago, that Handel at the Proms would have meant massed choirs belting out one of the oratorios or a full symphony orchestra tackling a suite of *Water Music* or some Beecham concoction. Now though, the age of authenticity has penetrated even to Saturday night Promenade concerts: the English Concert and the EC Singers were directed by Trevor Pinnock in *Handel's Ode for Saint Cecilia's Day*, the Coronation anthem *The King shall rejoice* and the *Music for the Royal Fireworks*.

Perhaps the quantity of "early music" and period baroque performances in the present season signals the successful absorption of this approach to the music of the past into the mainstream of concert life. If so, then this general public acceptance has had an uncomfortable evening; "authentic" playing does not mean something small-scale and etiolated; indeed the

results are often more rhythmically varied and with a far greater control of texture. Nothing could have demonstrated this more vividly than the account directed by Mr Pinnock, despite the modest size of his chorus. To the Coronation anthem and the *Fireworks Music* he brought a splendid clarity; no conventional account of the orchestral music would have dared to use the timpani and side drums so boldly and bravely, nor given it such a raw and incisive edge. Throughout the evening tempi tended to be on the slow side, as if Mr Pinnock was concerned that everything should remain distinct in the Albert Hall expanses. On Radio 3, however, it sometimes seemed a shade too deliberate. Soloists in the *Ode* were Feleisty, Lott and Anthony Rolfe Johnson, taking their solos with careful pointing and phrasing. The trumpets had an uncomfortable evening; other instrumental playing was first rate. An invigorating occasion.

RIBA awards announced

This year there are only three awards for the 150th anniversary celebrates of the Royal Institute of British Architects. The two top awards in the category of buildings with a contract value of more than £150,000 are the somewhat dull Yorkshire Bank headquarters in Leeds by Abbey and Hanson, Rowe and Partners; and Bishop Bateman Court at Trinity Hall Cambridge by Cambridge Design.

Norfolk town of Burnham Market wins an award from Ian Steen. Commended schemes include a large nuclear fission project, the Blochery theatre and a small conservatory overlooking the Thames at Wapping. The President of the RIBA said that he was disappointed in the low entry this year but added that the awards showed modern architecture has more diverse realisations than is generally realised. C.A.

'The Wire' goes monthly

The Wire, the quarterly jazz magazine launched in July 1982 by Anthony Wood, has become part of the Namara Group which publishes *Quartet* Books, and from October 1 will appear monthly. Chrissie Murray, who has been with the magazine since its inception, becomes editor with Anthony Wood taking over as managing editor.

Anonymous donor aids orchestra

The trustees of the City of Birmingham Orchestral Endowment fund have received an anonymous donation of £20,000 for the purchase of a violin. The violin, a fine old Italian instrument (circa 1750-60), the work of Nicolo Gagliano, will be used by a member of the City of Birmingham Orchestra on an extended loan. It will form the basis of a musical instrument bank for the orchestra.

A Little Hotel on the Side/Olivier

Michael Coveney

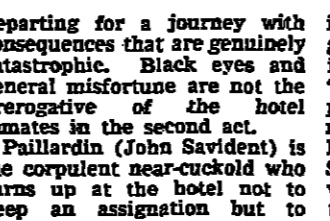
John Mortimer's new title for the Feydeau farce we know as *Hotel Paradiso* is not a particularly happy one, but it does convey the sordid and subterfuge of menopausal adultery, the sheer physical panic of the Parisian netter who is obliged to be followed by a man with a stammer, his four insufferable daughters, an officious spouse and a police raid authorised by the Department of Public Morality.

L'Hotel de la Librie Echange (1984) is a masterpiece of plotting in which Feydeau (and his mysterious collaborator Maurice Desvallieres) thrifflily expose the ridiculous contortions of people in the grip of an unworkable lust. At heart, this is the tradition of poor Finglet, a building contractor who seizes the opportunity afforded by his terminant wife's overnight absence to make love to the wife of his next-door neighbour Paillardin, an architect.

That, however, is far from being it. The Finglets make the terrible error of inviting a holiday acquaintance in Dieppe to visit them, and the stammering Mathieu—whose name is brought on the rain—daily arrives with piles of luggage and small girls. "I can't wait to look inside your trunks" ejaculates. Mme Finglet in one of Mr Mortimer's many one-liners which are both funny in their own right and true to the Feydeau spirit of backfiring, naughty wordplay.

Finglet himself in Jonathan Lynn's fast and well-controlled production is played by Graeme Garden, a farcure of considerable natural technique but limited emotional depth. He is gloriously funny but not really panic-stricken by his dilemma. I mentioned contortions. Mr Garden constructs some marvellous physical business, from the moment he dives on his intended prey while she is calmly crossing to the other side of the room. The lines help, too. Finglet describes himself as a volcano with nowhere to erupt and he encourages Mme Paillardin to take revenge on her glacial husband by sleeping with him, Finglet—"You'll get back" before sitting down on a chair which promptly collapses.

The adulterous wife is superbly played by Dinah Stabb, making evocation of the thought of contact with Finglet and a determination to give it a whirl. The other wife is given truly grotesque definition by Deborah Norton, barking coarse insults and ruderies through clenched teeth but to depart for a journey with consequences that are genuinely catastrophic. Black eyes and general misfortune are the prerogative of the hotel inmates in the second act. Paillardin (John Savident) is the corpulent near-cuckold who turns up at the hotel not to inspect the drains and investigate reports of strange knocking. As he tells his friend, "I do not care for hanky panky, frankly, Finglet." The midnight knocking also involves Paillardin's nephew (Matthew Sim) who is tutored by a lascivious maid (Judith Paris) and the four girls who are con-



Deborah Norton

Andromache/Buxton Festival

Martin Hoyle

The Cheek by Jowl Company makes the amazing claim that the Paxton Suite in the Pavilion Gardens is witnessing the first professional English language production of Racine's best known tragedy. Amazing not just because a world classic has been so ignored for three centuries, but also because Racine's conviction of human imperfection, his pessimism over the possibility of happiness and his dour suspicion of human motives see into accord with Anglo-Saxon puritanism.

David Bryer's new translation steers a straight forwardly literate course, very occasionally nodding to the rhythmic couplets of the original, sometimes throwing in the colloquial. Mostly it works well, clear, unambiguous and only rarely hinting at translator's or hump. It suits Declan Donnell's modern dress production in the semi-round, where naval uniformed princes and black-suited widows prowl the set's circumference like caged animals pacing out the inexorable constrictions of their destiny.

Cheek by Jowl is known for a free-wheeling flexibility and a vivid visual sense. Neither is given much scope in Racine's classically formulated chain of unrequited love, but this production remains impressive achievement. Possibly it should be retitled *Orestes*. Andrew Collins begins as boyish, frank and reasonable—almost the *honnête homme* of a Moliere comedy, the norm by which the excesses of others are revealed. As intelligent as all the cast, he convinces in his bewildered obsession with the capricious Hermione though not even Sadio Shlimmin's spirit can prevent this sleekly peered 1950s princess turning into the bank manager's daughter.

Advantages include the cravat and casual slacks that make the besotted Pyrrhus into an almost Brideshead figure. Duncan Bell wows *Andromache* with marvellous lyrics; evidently there is a new movement towards vigorously romantic classical acting spearheaded by McKellen and Pennington. Amanda Harris as the captive Princess cannot build much into the most one-dimensional of these pinning lovers, though the production hints at a repressed attraction for her captor. She suffers from the single-mindedness that robs the character of the duplicity, indignation, anger, hurt and regrets that mark Racine's per-



Andrew Collins

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday, A selective guide to all the Arts appears each Friday.

Music

Aug 10-16

- VIENNA: Next Vienna Baroque Ensemble, leader Heinz Prammer, Pergolesi Stabat Mater, Dominikanerkirche, Postgasse 4 (Mon, 42.00/2.00).
- PARIS: Haydn Sinfonietta Wien conducted by Manfred Huss, Michel Leschic, clarinet Mozart, Rosini, Haydn (Mon 8.30pm), St. Mari Church, 78 Rue Saint-Martin.
- NEW YORK: Scottish National Orchestra conducted by Neeme Jarvi with Linda Esther Gray, soprano, and Christian Blackshaw, piano, Sibelius, Beethoven and Shostakovich, Royal Albert Hall (Thu).
- CHICAGO: Ravinia Festival: Peter Serkin, piano, and Young Uck Kim, violin recital, All-Mozart programme (Wed), Chicago Symphony, James Conlon conducting, Cho-Liang Lin, violin, Brahms, Mendelssohn, Dvorak (Thu), Highland Park (728.4842).
- NETHERLANDS: Daniel Weyenberg, piano: Beethoven, Chopin and Liszt, Amsterdam Concertgebouw (Tue).
- CONCERTgebouw Orchestra conducted by Semyon Bychkov with Emmy Becher, violin, Verdi, Bruch and Rachmaninov, (020) 718345 (Wed).

42nd Street/Theatre Royal, Drury Lane

Michael Coveney



Clare Leach and Michael Howe

When David Merrick's production of *42nd Street* played in New York four years ago, the director and choreographer Gower Champion collapsed and died just a few hours before curtain. As he tells his friend, "I do not care for hanky panky, frankly, Finglet." The midnight knocking also involves Paillardin's nephew (Matthew Sim) who is tutored by a lascivious maid (Judith Paris) and the four girls who are con-

sound, under the direction of Kevin Amos, is tremendous. The injured star, Dorothy Brock, brings London stage, unfortunately for her in the same week as Lena Horne. Miss Brown's limited but expressively corkscrew voice is at its best doing an Al Jolson in the opening night duet "About A Quarter to Nine". Mr Champion's production, re-staged by Lucia Victor, achieves outrageous elisions between small dialogue scenes (the book by Michael Stewart and Mark Bramble is notably feeble) and full-scale choreographic explosions: thus a chat over coffee between rehearsals becomes "Go Into Your Dance," and a low-key party where Dorothy repels an amatory cowboy investor (very badly played) is unabashedly transmuted into a first act finale of irresistible garishness. "We're In The Money." The company, in green dollar uniform, taps and batters its way over a huge array of coins while a monetary Manhattan fills the skyline. The title song is a fitting climax to Miss Leach's performance as she stands isolated against an evocative illuminated backdrop of Broadway theatre signs—Lynn Fontaine in *Strange Interlude*, Katherine Cornell in *The Alien Corn*—but the heart of the show has been driven out by too much obsession with manufacturing a replica.

UK TAX REFORM

Dawn of the taxing computer

By Clive Wolman

ALL THE elements of a classic British botch-up of Concordia dimensions could be spotted only three years ago in the Government project to computerise income tax assessment using the largest on-line system in Europe.

The project looked as though it would not be completed before the 1980s. It had already dragged on since 1982, dogged by labour disputes, technical revisions, public expenditure squeezes which cost the project more than they saved and a series of stops and starts punctuated by Government U-turns.

In the last such U-turn in 1980, the Government overruled the Inland Revenue, watered down the project specifications and awarded the £50m main-frame computer contract to ICL, the UK computer company, over the claims of its US competitor, IBM.

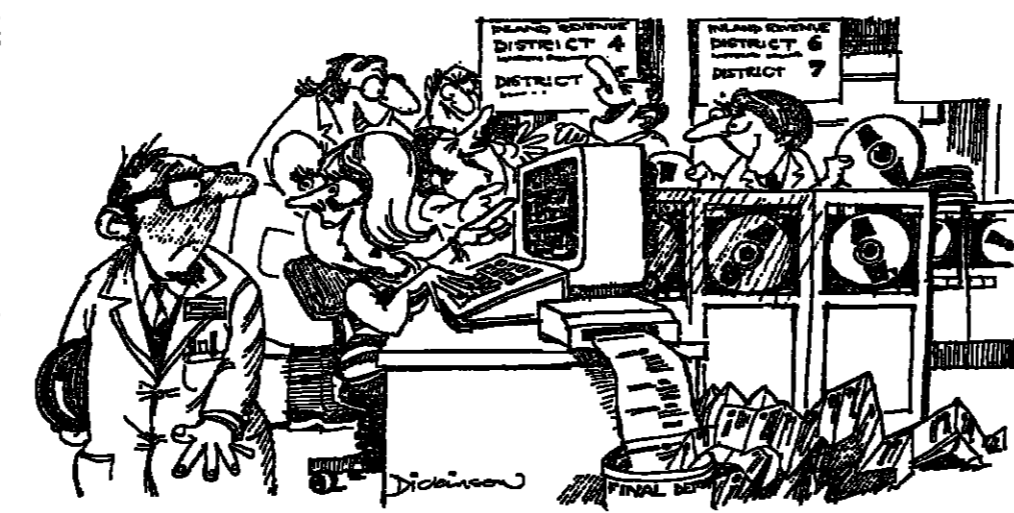
Revenue officials complained that "Cop (Computerisation of the Pay-As-you-Earn system) had degenerated into a lame-duck preservation scheme. The delays and controversies left Britain 10 to 20 years behind most other Western Euro-

pean and North American countries in computerisation. Even today, UK income tax based on the PAYE system is being administered by about 25,000 clerical workers engaged in writing out taxing notices and other routine tasks.

But a recent announcement by Mr Nigel Lawson the Chancellor, that he has given the go-ahead for installing the new computers, after three years of drawing up fresh plans and pilot-testing marks a turning point in the fortunes of Cop and the reputation of ICL.

The completion of Cop is now forecast for the end of 1987, ahead of schedule and under budget. In 1988-89, computerisation will be extended to taxation of the self-employed under Schedule D and to capital gains tax.

When installed, the computer will, potentially, be a powerful new tool in the Revenue's investigations of the black economy and tax fraud—and it will become more difficult to delay making tax returns or payments.



"I've just tapped into your personal returns, Mr Johnson—your maths have been wrong for years"

Fundamental reforms in the UK tax structure also stand a good chance of slipping into the agenda of the next Government. For the past 20 years, nearly all proposals for overhauling even the worst anomalies of the tax system have been blocked by the simple administrative objections that a manually operated system could not cope.

You want to scrap the rates and introduce a local income tax set by the local authorities?—wait for Cop. You want to double or treble personal allowances so as to take the lower-paid out of tax?—wait for Cop.

According to Mr Steve Matheson, who is in charge of the introduction of Cop: "No system in the world will have the flexibility to accommodate changes that we will have with this system."

which, it believed, would require a different computer system. Fourteen years later, still no final decision has been made on the integration issue. Yet Cop is going ahead anyway, with flexibility to allow for changes. Why was the same approach not adopted in 1970? There was, it appears, no technical reason for failing to do so.

In 1974, when Labour took over, it rejected the tax credit proposals and later with a squeeze on public expenditure, halted further progress. Eventually in 1977-78, work was resumed at a snail's pace.

The high cost of all these delays is only partly indicated by the £30m net annual saving, in 1984 prices, that Cop will bring after allowing for the installation costs of £228m. Buying the computer hardware would have been more expensive in the 1970s. But all the other costs—software, file returns each year about their savings so that adjustments could be made to the tax deducted under PAYE.

The IFS, an independent "think-tank," suggests that Cop may be too centralised to permit integration at local level. The Revenue should possibly have installed micro-processors in local offices exploiting the latest technology rather than relying on main-frames.

Mr Matheson dismisses the suggestion. As technology develops, his system will allow more "local intelligence" to be introduced. Meanwhile, he says, mainframe computers are still much cheaper when it comes to issuing 9m tax return forms or programming in budgetary tax changes.

The Revenue would be able to plug in its computers to those of the Department of Health and Social Security so that data could pass from one system to the other. The computers would also need to speak the same language to each other, preferably without using a costly "translator" to make their figures compatible. Outside computer consultants confirm this should be possible, although it depends partly on how the DESS decides to complete its own computerisation programme in the next few years. Since 1981, contracts have had to be put out to open tender under international trade rules. But if ICL wins again, compatibility should be easier to achieve.

No other system will have such flexibility

When installed, the computer will, potentially, be a powerful new tool in the Revenue's investigations of the black economy and tax fraud—and it will become more difficult to delay making tax returns or payments.

Bankers and customers

From Mr L. Levy Sir, — As I regularly see customers and non-customers to discuss their borrowing requirements, I was interested to read Mr Pearce's letter on August 2.

Nowadays the work required to vet a new borrowing proposition is very time consuming. If it is an existing customer who has a good track record, decision making is that much easier. With the recent increase in interest rates, profit margins for some companies will be decimated. Couple this with the fact that interest may not be settled within the agreed terms, puts great pressure on cash flow. If increased facilities or alternative sources of finance cannot be obtained the company is out of business.

Rightly so the Government has been encouraging business starts. Many people who are genuinely determined to succeed are naturally optimistic. While their possible lack of financial skill can be balanced by a good accountant and bank manager, there are many hurdles to overcome. New premises have to be found and planning permission can be slow. Building works take longer than expected and equipment does not arrive on time. Poor market research means that the product never really gets off the ground. Therefore, heavy reliance has to be placed on bank finance because local traders will not give credit readily. It is therefore essential that accurate budgets and cash-flows are prepared. This is only the first stage as figures have to be monitored carefully to ensure that the business is on correct lines so that early corrective action can be implemented, if necessary.

Bankers want customers to be successful and if good foundations are laid there is no need for the bank to take the unwelcome step realise security. L. C. Levy, Barclays Bank, Essex House, George Street, Croydon.

Lending tone From the Managing Partner, Corporate Consulting Group. Sir, — The Lex analogy (August 6), that non-executive

Letters to the Editor

directors, like bidets, add tone but are capable of different uses, stir the imagination and invites extensions.

Both operate intermittently and with varying effect. The bidet is most useful after the event and works bottom-up. Similarly, historically, non-executive directors have reacted to events and functioned best in crisis.

There are encouraging signs of improvement, however, and our latest survey shows a much greater number are now concerned to influence strategy and develop board processes and information systems which will allow them to operate top-down.

Perhaps, like bidets, once a board has used a non-executive director successfully, it will never do without one. Leslie Dighton, 24 Buckingham Gate, S.W.1.

BA supports competition and is in favour of domestic de-regulation From the Chief Executive, British Airways Sir, — Your first leader (August 9) is the third to be written recently on the subject of the future of the British airline industry. It is also the third to campaign forcefully for the reduction of competition on certain air routes by disbarring British Airways from flying them.

By which this figure of 70 per cent ASKs (available seat kilometres) is produced, by any meaningful measurement would not be over 70 per cent larger than BMA and Dan Air which (at 80 per cent load) carry seven times the number of scheduled passengers flown by Virgin Atlantic. The CAA statistics for 1983 show that BA accounted for 31 per cent of all passengers passing through United Kingdom airports on scheduled and chartered operations. Other British airlines carried 37 per cent and foreign airlines 32 per cent—hardly the monopoly you claim!

The Government's principal concern should be to increase efficiency and the scope of competition. It is generally accepted that the market is the arbiter of efficiency. Where the increase in scope for competition when a competitor is disbarred from flying? BA has said repeatedly it supports direct competition on international routes and de-regulation of domestic routes. In the present debate it is important that competition is the true sense (i.e. two airlines competing on the same route) should not be confused with the often expressed implication that competition is some sort of race between British airlines to see who can be the biggest. This latter has nothing whatever to do with competing worldwide for the passenger.

BA with over 70 per cent of the market and total dominance at Heathrow would retain too much muscle for a profit-maximising commercial venture." Ignoring the means

and unions separately. The tone of your comments would seem to advocate that Ministers should eschew undertakings previously given and accepted in good faith. "At stake is this Government's will to pursue vigorously the "multi-airline" policy espoused by every government since the 1950s. In this context it may be of interest that Bcal counts itself as the ninth largest airline in Europe—bigger than the national carriers of Belgium, Portugal, Greece, Turkey—and the 25th largest airline in the free world. I would comment on the final sentence of your leader, in which you remark on the lack of effective sanction by the regulatory authority in the event of inefficiency by a monopoly. The first and most effective sanction on any operation, large or small, in a competitive market is the market itself. BA is to be privatised and therefore this applies before and after the sale of shares. In addition, regulations already exist and it is in the power of the CAA to regulate the services offered by operators who do not reach the required standard. BA supports competition and I repeat once again that we favour de-regulation of domestic routes and the granting of licences to independent airlines to compete with us on international routes wherever they wish. Colin M. Marshall, PO Box 10, Heathrow Airport (London), Hounslow, Middlesex.

Lombard Interest rate illusions

By Samuel Brittan

"WHAT WOULD happen if UK interest rates were at the same level as those of Germany which I believe is justified by our internal economic situation?"

The brief answer to this reader's query is that, contrary to popular belief, governments and central banks do not determine real interest rates. These are determined in the world capital markets. Individual national authorities can push their rates above world levels by policy uncertainties. Real interest rates can be temporarily low if a country's exchange rate is regarded as abnormally low and likely to appreciate. But leaving aside ephemeral forces of this kind, a country has little chance—short of draconian and probably unworkable exchange controls—of accepting world interest levels.

The only effective policy action to lower interest rate is to add to savings or reduce borrowing. Governments can do this by fiscal policy; not only by reducing budget deficits, but also by removing fiscal incentives to borrowing, for instance on home mortgage credit. But the only country important enough to affect world interest rate levels by such policies is the U.S.

These basic considerations are obscured by the mechanics by which central banks influence, and in some cases set, short-term interest rates. This is one reason in favour of a discretionary monetary base system (and a Bank Rate system only as a second best).

Last week's reduction of UK interest rates was simply a partial reversal of an earlier rise due to a flurry of fear, ignorance, misunderstanding and strike-endangered lack of confidence which the so-called "authorities" were wholly unable to resist. But suppose the Bank of England had tried to reduce nominal short-term interest rates not to 11 per cent, but to the German rate of around 6 per cent and for a time succeeded.

annum enough to compensate international holders of funds for adverse interest differentials in holding funds in London.

There is a case for allowing deliberate undershooting of sterling below its underlying value during a temporary emergency—one which the Government is willing to bet will prove temporary. But if undershooting of sterling is encouraged, not as a fire-fighting measure, but as a deliberate attempt to reduce UK real interest rates to, say, 6 per cent, very different consequences would ensue. If British interest rates are to be 6 per cent below U.S. rates indefinitely, then there would need to be an expectation of sterling rising against the dollar (and staying put against the D-mark) by 6 per cent per annum not merely in the year ahead, but for every year as far ahead as one can see.

This could be achieved if the UK inflation rate were expected to be well below the U.S. rate and no more than the German rate as long-term average. A partial substitute would be an overwhelming international portfolio demand for sterling, comparable to that now existing for the dollar. In the obvious unlikelihood of any of these conditions being fulfilled a very large fall in sterling indeed (almost certainly to well below \$1, would be required to create expectations of a continuing further rise, if such expectations could be engendered. But almost certainly they could not. For the result of such a plunge would be to worsen rather than improve inflationary expectations whatever was said about future monetary policy, and I would place a very large bet that the Bank of England would fail to hold interest rates at anything like 6 per cent and that we would end up with far higher nominal interest rates—and no lower real interest rates—than we have at present, together with an inflationary crisis.

The moral is that neither my correspondent, nor the Bank of England, knows the level of interest rates that is internally justified. If the market place persists in giving an answer different to one's preconceptions (e.g. about surplus capacity) it is these preconceptions that may need to change.

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Terry Byland on Wall Street Demand for banks lacks logic

THE RENEWED surge in Wall Street stock markets towards the end of the week sent investors scouring the equity lists for shares which had lagged behind when the bulls first broke out of the pasture.

Table with columns: Bank, Share P/E relative to price, S&P 500 p/e

This last point is significant for Becker Paribas' analysts Mr George Salem and Ms Marian Grable, who are not recommending any money centre bank stocks for purchase at present.

A material (several hundred basis points) drop in short-term rates is only one requirement; the others may appear equally unlikely.

Prime among them, in the opinion of the discerning analyst and many others, is the international debt situation which overshadows bank earnings projections like a thundercloud.

Overall, the arguments for shunning the money centre banks in favour of selected regional bank stocks appear fully intact.

Other bright spots in the regional include Barnett Banks, now the largest bank in Florida.

Solidarity leaders will meet to plan strategy

BY LESLIE COLLITT IN WARSAW

TOP OFFICIALS and advisers of the outlawed Solidarity trade union, released from prison under the current amnesty, plan to meet Mr Lech Walesa in Gdansk, possibly tomorrow, to map out their policy towards the government of General Wojciech Jaruzelski.

By yesterday evening three advisers to Solidarity from the KOR movement, including Mr Jacek Kuron and Mr Adam Michalik, had been released, leaving only one KOR activist, Mr Henryk.

Both are under investigation for alleged treason and were excluded from the 652 political prisoners covered by the amnesty.

Rebel miners plan return to work campaign in UK strike

BY PHILIP BASSETT, LABOUR CORRESPONDENT, IN LONDON

REBEL MINERS in Yorkshire are set to try to secure a large-scale return to work in the area, the heart of British miners' five-month-old strikes over pit closures.

About 30 miners, including about 20 from Yorkshire, met yesterday to fix a date for the return to work and to begin setting properly in train a campaign in the Yorkshire coalfield to achieve it.

Posters have already started to appear in a number of mining areas urging miners to "strike back" at the strikes, and some involved with the return to work campaign in Yorkshire said that these and a publicity campaign would be stepped up to try to get a return to work.

Publicly, those at yesterday's meeting, held in the morning and running over lunchtime at a pub on the Yorkshire-Nottinghamshire border, refused to disclose the date for the concerted return to work in the Yorkshire area.

However, it is understood that the rebel miners have settled on September 3, for a number of reasons:

A three-week gap gives the group, known as the Voice of Mod-

eration, a chance to build up momentum for a return to work - though those involved acknowledge that it will also allow striking miners to plan their campaign against the move.

On that day, the annual Trades Union Congress opens in Brighton. Organisers of the movement recognise that the expected emotional displays of solidarity with the miners could make a return to work more difficult after the TUC - which is why another suggested date of September 10 has apparently been rejected.

Up to 1,000 striking miners are expected to lobby the TUC on September 3 - which rebel organisers hope will drastically reduce the number able to mount counter-pickets at the Yorkshire pits.

The strategy of the rebels is not to go initially for a widespread return to work in all of Yorkshire's pits but instead to concentrate on three already-identified mines where they believe both that support is strongest and that a tactical point can be made.

might be modified, to allow them to fall within the amnesty.

On Saturday the authorities freed Mr Jan Rulewski, the sixth leading Solidarity official to be let out since the amnesty began on July 22.

By yesterday evening three advisers to Solidarity from the KOR movement, including Mr Jacek Kuron and Mr Adam Michalik, had been released, leaving only one KOR activist, Mr Henryk.

Tomorrow's anniversary in Gdansk will be marked by services at St Brygida's, the parish church of the Lenin shipyard.

Both are under investigation for alleged treason and were excluded from the 652 political prisoners covered by the amnesty.

Polish engineering exports plunge, Page 2

Mugabe rallies a united party

By Our Own Correspondent in Harare

MR ROBERT MUGABE, the Prime Minister of Zimbabwe, emerged yesterday from the Zanu-PF's first congress in 20 years firmly in control of all its elements.

Mr Mugabe has chosen a politburo of 12 members, nearly all of whom were members of the party executive during the war years while the party was based in Mozambique.

In his closing speech, Mr Mugabe told the 6,000 delegates and foreign observers that Zimbabwe now "must become a new, having grown more united at the congress and more able to carry out the party's aims efficiently."

Through its resolutions which were approved late on Friday night under the floodlights of the Borrowdale Racecourse, the congress has urged the Government to adopt a one-party state through constitutional means and "in the fullness of time."

However, a congress spokesman said yesterday that the resolutions had not been adopted for "immediate implementation," but rather as a document for the congress.

Mr Mugabe will have to overcome the barriers of a constitution that requires the vote of all members of the House of Assembly if the section guaranteeing political freedoms is to be amended.

Similarly, Mr Mugabe has always stated that the Government recognises the existence of the country's essentially free enterprise economy and excludes any hasty action that would upset it.

The congress also adopted the party's severe leadership code, in terms of which senior party officials may not practise any kind of business.

The only person on the politburo who was not on the dissolved central committee is Dr Nathan Shamuyarira.

Mr Edgar Tekere, former party Secretary General who was acquitted in 1980 of the murder of a white farmer, emerged as the most popularly acclaimed personality at the five-day gathering.

Mr Tekere has recently been outspoken on corruption in the high levels of the party and the Government, demanding the sacking of those involved, and it was ironic that the person to be voted on to the central committee after him was Mr Kumbirai Kangai.

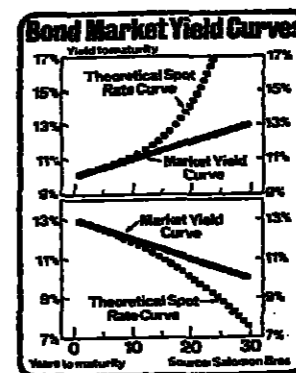
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THE LEX COLUMN

Cats and tigers on Wall Street



last week's Treasury auction will probably generate feline zeros with a face value of \$7bn - while a completely different group of packaging brokers can claim to have originated around \$50bn since January - is fairly good evidence that these animals are in fashion outside the circle of committed bond traders.

In practice, the wider demand for feline instruments is in great measure due to their having a much greater actuarial duration than coupon-bearing bonds of the same maturity. This characteristic must appeal to speculators, for it means that the price of longer-dated zeros is much more sensitive to changes in the rate of interest than an equivalent Treasury.

The longer duration of felines should be equally attractive - in principle - to the most conservatively managed of funds. The replacement of actual coupons by a deep discount allows far larger liabilities to be funded for a given front-end payment. It also means that there actually exist instruments - of the highest possible underlying security - whose duration is great enough to match the longer liabilities of a life or pension fund.

This summer the American sport of re-packaging securities, to satisfy investment needs that the U.S. Treasury never thought of reaching, has come of age. Within weeks of the legislation to remove withholding tax, private enterprise presses have been set rolling to process U.S. Treasuries for the European retail market.

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World Weather table showing temperatures and conditions for various cities like London, New York, Tokyo, etc.

Koreans' high hopes Continued from Page 1 Political uncertainties remain, though. Korea says it hopes to "attract all nations regardless of existing political differences" and that if all goes as planned, 10,000 athletes will represent 153 countries at the 1988 Games.

Large advertisement for Hamilton Oil Great Britain PLC, featuring financial figures (£180,000,000 and U.S.\$30,000,000) and a list of participating companies and banks.



COMPANIES AND MARKETS FINANCIAL TIMES

Monday August 13 1984

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U.S. withholding tax move may spark contest for capital

BY STEPHEN LEWIS

THE U.S. decision to remove withholding taxes from interest payments on domestic bonds could well be only the first round in an international contest to attract capital.

The starting-point for this contest has been the unprecedented growth in the U.S. balance of payments current account deficit in the past two years.

A worsening in the U.S. current account position has not been accompanied by dollar weakness because the U.S. has been able to attract increasing inflows on capital account.

This, however, has required progressively higher U.S. interest rates. Since the beginning of 1984, U.S. short-term interest rates have risen by 300 basis points relative to their counterparts in West Germany and Japan.

On a Treasury bond yield comparison, U.S. yields have increased by almost 4 percentage points relative to their West German and Japanese equivalents when the change in the withholding tax law was first mooted in June. Since then, probably partly as a response to the change in the law, U.S. bond yields have eased back by more than one percentage point.

The removal of the U.S. tax has effectively increased the yield received by an international investor, although the practical extent of this improvement will, for many investors claiming benefits under double taxation rules, not be as great as the full tax payment which would have been withheld under the old rules.

Even so, the threat of diversion of capital to the U.S. domestic bond market has been substantial enough to prompt the West German authorities to consider removing their own 25 per cent coupon tax. They are likely soon to produce a concrete proposal for abolishing this tax, hoping thereby to prevent the dollar from establishing an ad-

vantage over the D-Mark as a home for international funds.

Where does the UK stand in this competition for bond investment? The general rule is that interest payments on UK Government bonds are made net of tax, whether held by a domestic or an overseas investor. The exceptions to this rule are War Loan, on which interest is payable before deduction of tax to any holder, and a range of bonds, mostly issued in the 1970s when sterling was chronically weak, which are free of tax to residents abroad.

However, neither of these exceptions is likely to put the UK in a strong position to compete for international capital. Because of War Loan's unique tax feature, it already stands on a yield well below yields on other UK Government bonds. This reduces its intrinsic yield attraction.

Furthermore, a foreign investor must first register as such with the UK Inland Revenue before being able to take advantage of the provisions relating to those stocks which are free of tax to residents abroad.

The UK, therefore, could well be at a disadvantage compared with other major countries, in the newly developing environment for bond taxation. There is a danger that sterling will tend to be depressed relative to other currencies as the UK gilt-edged market fails to secure its share of international bond investment.

The problem is unlikely to be solved by the UK authorities' reverting to the practice of the 1970s of issuing government bonds free of tax to residents abroad. The registration procedure required of foreign investors would still act as a disincentive to investment in UK gilts.

Stephen Lewis is a partner in London stockbrokers Phillips and Drew.

INTERNATIONAL BONDS New York rally prompts feast

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

NEVER KNOWN to do things by halves, the Eurobond market went on a real binge last week, cooking up a veritable feast of no less than \$2.3bn in new dollar paper.

It was a richly varied array of straight bonds, floating rate notes, bonds with equity warrants, bonds with warrants, plain warrants and even a lone convertible. In fact all that seemed to be missing were a few "flip-flop" floaters for pudding. The occasion - an unstinting celebration of the rally in the New York bond market.

For once there were also few immediate signs of the usual indigestion. The secondary market simply refused to take fright at the sight of all this new paper. Buoyed up by Wall Street, fixed rate dollar bonds were up by an average of 1 1/4 points over the week as a whole with gains up to around four points recorded by some individual issues.

It would be easy to conclude from all this that a new golden era - or at least a golden fortnight - has dawned for the bond market. But a closer look at last week's performance suggests that all may not necessarily be plain sailing from now on.

In the first place not all last week's new issues were particularly well received. Second, the patchy performance of the secondary market suggests that price movements were determined above all by professional short-covering rather than genuine retail demand. Retail buyers were seen in Europe but in far fewer numbers than in New York.

Partly because of this, some bankers are still a little suspicious of last week's rally.

Short term Eurodollar rates are still bouncing along at around the 12 per cent mark, while any drop in dollar interest rates that weakens the dollar puts European investors in a real quandary. Should they buy now and risk currency losses later? Or should they wait for the current to drop and miss those succulent yields?

Few market participants could fail to notice that the best performing last week were again floating rate notes. The new \$250m Dresdner Bank issue which carries equity warrants traded on Friday 1/4 points above its 105 issue price.

The \$100m Atlantic Federal issue, whose interest is linked to U.S. Treasury security yields, appealed to institutional investors and traded at a narrow discount of only five basis points. Also well-received was the \$500m floater for Italy which appealed because its size guarantees trading liquidity and because of its conventional structure.

True, the fixed rate market also saw some successes. The \$150m, 13 1/4 per cent issue for CSB Overseas Capital Corp was increased to \$250m on Friday through the issue of a \$100m tap stock.

But the \$200m for Beatrice Foods proved too much for the market to digest and moved very slowly indeed. So, to a slightly lesser degree,

did the \$300m issue for Texaco which failed to respond to a new secondary market surge on Friday, remaining stuck at a discount around its total fees of 1 1/4 per cent.

With this deal it was the warrants that really caught investors' fancy. They allow the purchase of a 12 1/2 per cent, eight year issue at any time over the next three years. Originally priced at \$17, they traded up to \$21.50 on Friday afternoon.

All this suggests investors are more anxious than anything else to hedge their bets. A small outlay on warrants brings with it the chance to lock into high yields in the future if interest rates do drop. By then the dollar should be cheaper too. For many this still seems preferable to pouring large amounts of money into the Eurobond market before the rally has become really firmly established.

Whether this occurs will still depend heavily on developments in New York.

Banks face problem with debt monitoring

BY OUR EUROMARKETS CORRESPONDENT

HOW WILL creditor banks monitor the performance of Latin American debtor countries once the International Monetary Fund has done its work and they are on their own?

This has become one of the thornier questions exercising Mexico's creditor banks as they continue their search for a new multi-year rescheduling agreement.

Mexico has told them that it sees no need for a new IMF programme when the present one expires at the end of next year, but it wants to renegotiate debts falling due right up to the end of the decade.

Not surprisingly the banks are reluctant to espouse a deal that would largely fall right outside the umbrella of the IMF. As the Mexican talks continue this week they will be looking at ways of getting round this problem.

But the IMF itself is proving remarkably reluctant to help. It argues that it is up to the banks themselves to organise their long term relationship with Mexico.

Above all it wants nothing to do with any arrangement that would force it to impose an overall ceiling on Mexico's foreign debt for the life of any debt rescheduling agreement.

One way out could be to use the Washington-based Institute of International Finance which was set up by the banks themselves to gather information on the debtors.

U.S. banks could, however, face anti-trust problems if its recommendations were ever to be construed as binding. Besides, not all lenders to Mexico are members.


Another idea would be for the IMF itself to publish the conclusions of its annual survey of Mexico's economy.

The Group of Ten leading industrial countries are already looking at such a possibility in the case of their own economies, but for some of them it remains a very controversial issue and any decision would come too late for the Mexican deal.

| NEW INTERNATIONAL BOND ISSUES | | | | | | | | | | | | | | | |
|-------------------------------|-----------|----------|--------------------|----------|--------|--|---------------|-----------------|-----------|----------|--------------------|----------|--------|--|---------------|
| Borrower | Amount m. | Maturity | Average life years | Coupon % | Price | Lead Manager | Offer yield % | Borrower | Amount m. | Maturity | Average life years | Coupon % | Price | Lead Manager | Offer yield % |
| U.S. DOLLARS | | | | | | | | | | | | | | | |
| Texaco | 300 | 1996 | 10 | 3 1/2 | 100 | Wanamaker, Solomon Bros., Yamachi Int'l | 3.500 | Texaco | 300 | 1996 | 10 | 3 1/2 | 100 | Wanamaker, Solomon Bros., Yamachi Int'l | 13.250 |
| Beatrice Foods | 200 | 1994 | 10 | 10 1/2 | 100 | Merrill Lynch, Morgan Guaranty, Nomura Int'l | 10.500 | Beatrice Foods | 200 | 1994 | 10 | 10 1/2 | 100 | Merrill Lynch, Morgan Guaranty, Nomura Int'l | 11.875 |
| CSB Overseas | 250 | 1989 | 15 | 13 1/2 | 100 | Merrill Lynch, Morgan Guaranty, Nomura Int'l | 10.500 | CSB Overseas | 250 | 1989 | 15 | 13 1/2 | 100 | Merrill Lynch, Morgan Guaranty, Nomura Int'l | 11.875 |
| D-MARKS | | | | | | | | | | | | | | | |
| Dresdner Bank | 250 | 1992 | 8 | 8 | 115 | Dresdner | 5.462 | Dresdner Bank | 250 | 1992 | 8 | 8 | 115 | Dresdner | 5.462 |
| SWISS FRANCS | | | | | | | | | | | | | | | |
| UBS | 100 | 1992 | - | 5 1/2 | 100 | UBS | 5.875 | UBS | 100 | 1992 | - | 5 1/2 | 100 | UBS | 5.875 |
| SBC | 100 | 1999 | - | 5 1/2 | 100 | SBC | 5.750 | SBC | 100 | 1999 | - | 5 1/2 | 100 | SBC | 5.750 |
| UBS | 100 | 1994 | - | 5 1/2 | 100 | UBS | 5.750 | UBS | 100 | 1994 | - | 5 1/2 | 100 | UBS | 5.750 |
| SBC | 80 | 1989 | - | 8 1/2 | 99 1/2 | SBC | 6.997 | SBC | 80 | 1989 | - | 8 1/2 | 99 1/2 | SBC | 6.997 |
| STERLINGS | | | | | | | | | | | | | | | |
| Morgan Grenfell | 30 | 2008 | 25 | 12 1/2 | 98.545 | Morgan Grenfell | 12.695 | Morgan Grenfell | 30 | 2008 | 25 | 12 1/2 | 98.545 | Morgan Grenfell | 12.695 |
| Hamberg | 75 | 1994 | 10 | 11 1/2 | 100 | Hamberg | 11.875 | Hamberg | 75 | 1994 | 10 | 11 1/2 | 100 | Hamberg | 11.875 |
| GUILDERS | | | | | | | | | | | | | | | |
| ABN | 300 | 1994 | 10 | 8 1/2 | - | ABN | - | ABN | 300 | 1994 | 10 | 8 1/2 | - | ABN | - |

This announcement appears as a matter of record only.

July 1984



Republic of Portugal

U.S. \$400,000,000

Medium Term Loan including a European Currency Unit Tranche

Lead Managed by

- American Express International Banking Group
- The Bank of Tokyo, Ltd.
- Barclays Bank Group
- Chemical Bank International Group
- Commerzbank Aktiengesellschaft
- Arab Banking Corporation (ABC)
- Banque Nationale de Paris
- Chase Manhattan Capital Markets Group
- Citicorp Capital Markets Group
- Compagnie Luxembourgeoise de la Dresdner Bank AG
- Dresdner Bank International
- The Dai-ichi Kangyo Bank, Limited
- IBJ International Limited
- Manufacturers Hanover Limited
- The Mitsubishi Trust and Banking Corporation
- Orion Royal Bank Limited
- Société Générale de Banque S.A.
- Banque Belge Limited
- The Sumitomo Bank, Limited
- Union Bank of Switzerland

Managed by

- Alahli Bank of Kuwait K.S.C.
- Kuwait Foreign Trading Contracting & Investment Co. (KFTCIC)
- The Mitsui Bank, Limited
- The Taiyo Kobe Bank, Limited
- The United Bank of Kuwait Limited
- Banco di Napoli International S.A.
- The Kyowa Bank, Ltd.
- The Sumitomo Trust & Banking Co., Ltd.
- The Toyo Trust and Banking Company, Limited
- The Yasuda Trust and Banking Company Limited

Co-Managed by

- Bank of Ireland
- Trust Bank of Africa Limited, London Branch
- Deutsche Bank
- Compagnie Financière Luxembourg
- The Hokkaido Takushoku Bank, Limited

Funds provided by

- Alahli Bank of Kuwait K.S.C.
- Associated Japanese Bank (International) Limited
- The Bank of Tokyo, Ltd.
- Bank of Ireland
- The Chase Manhattan Bank, N.A.
- Commerzbank International S.A.
- Copenhagen Handelsbank International S.A.
- The Dai-ichi Kangyo Bank, Limited
- HFC Trust & Savings Limited
- The Industrial Bank of Japan, Limited
- Kuwait Foreign Trading Contracting & Investment Co. (KFTCIC)
- Lloyds Bank International Limited
- Manufacturers Hanover (Suisse) S.A.
- The Mitsubishi Bank, Limited
- The Mitsui Bank, Limited
- The Royal Bank of Canada Group
- Sanwa Bank, Limited
- The Sumitomo Trust & Banking Co., Ltd.
- The Toyo Trust and Banking Company, Limited
- The United Bank of Kuwait Limited
- American Express International Banking Corporation
- Banco di Napoli International S.A.
- Banque Belge Limited
- Cassa di Risparmio delle Province Lombarde (London Branch)
- Chemical Bank (France) S.A.
- Compagnie Luxembourgeoise de la Dresdner Bank AG
- Crédit Lyonnais
- The Daiwa Bank, Limited
- Compagnie Financière Luxembourg
- The Dai-ichi Kangyo Bank, Limited
- The Hokkaido Takushoku Bank, Limited
- International Westminster Bank PLC
- Kuwaiti-French Bank
- The Kyowa Bank, Ltd.
- Manufacturers Hanover Bank (Guernsey) Ltd.
- The Mitsubishi Trust and Banking Corporation
- PKBANK International (Luxembourg) S.A.
- PRIVATBanken Limited
- The Rural and Industries Bank of Western Australia
- Saizama Bank (Europe) S.A.
- The Sumitomo Bank, Limited
- The Tokai Bank, Limited
- Trust Bank of Africa Limited, London Branch
- The Yasuda Trust and Banking Company Limited

Agent Banks

- The Industrial Bank of Japan, Limited
- Lloyds Bank International Limited

This announcement appears as a matter of record only. The Notes were offered and sold outside of the United States of America and have not been registered for offer or sale therein.

U.S. \$600,000,000

General Electric Credit International N.V.

Zero Coupon Guaranteed Notes Due 1996

Unconditionally guaranteed as to payment by

General Electric Credit Corporation

Goldman Sachs International Corp.

Yamaichi International (Europe) Limited

Swiss Bank Corporation International Limited

- Algemene Bank Nederland N.V.
- BankAmerica Capital Markets Group
- Banque Paribas
- Crédit Commercial de France
- Dresdner Bank Aktiengesellschaft
- Kredietbank International Group
- Merrill Lynch Capital Markets
- Orion Royal Bank Limited
- Société Générale de Banque S.A.
- S.G. Warburg & Co. Ltd.
- Amro International Limited
- Banque Nationale de Paris
- Commerzbank Aktiengesellschaft
- Credit Suisse First Boston Limited
- European Banking Company Limited
- Lehman Brothers International
- Morgan Stanley International
- Salomon Brothers International Limited
- Union Bank of Switzerland (Securities) Limited
- Wood Gundy Limited

July, 1984

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS Wall Street traders take Treasury sale in their stride

THERE was plenty of good news for the U.S. credit markets last week but by Friday it had begun to look as if the slight rally was beginning to run out of steam.

Treasury 13 1/2 per cent 30-year bond, closed at 106 24/32 to yield 12.36 per cent.

Table with 2 columns: U.S. INTEREST RATES (%), Week to Aug 10, Aug 3. Rows include Fed funds, 3-month CDs, 3-month T-bills, 10-year long bond, AAA utility, AA industrial.

However, it also became clear by Thursday evening that there had been some special factors at work in fuelling the heavy demand for the Government's paper, after five leading U.S. institutions led by Salomon Brothers admitted that they had bought over a third of the \$4.75bn issue which they planned to repackage and sell to overseas investors in anonymous bearer form.

Ever since the U.S. repeated its 30 per cent interest withholding tax earlier this year, U.S. investment bankers have been working on plans to herd foreign investors into U.S. government securities.

The innovativeness of Salomon Brothers' ploy was admired by market technicians but by the end of the week there were signs of a growing political backlash from certain members of Congress who feel that the scheme could imply tax dodging.

The day after the Salomon Brothers announcement the Senate passed a non-binding resolution ordering the U.S. Treasury to prevent sales of U.S. government-backed securities in bearer form.

Although the Fed Funds rate had risen by around 110 basis points since the last refunding, the U.S. Government has been able to cur the cost of raising long-term debt by some 80 basis points, which underlines the scale of the improvement in the credit market's confidence since late May when long bond yields were up to within a whisker of 14 per cent.

The success of the long-term bond auction on Thursday was followed shortly afterwards by the news that ML had fallen by a surprisingly large \$2.6bn and the credit markets were euphoric. Long bond prices soared by around two full points and the bellwether,

Finnish groups in \$40m takeover

AMER GROUP, the Finnish tobacco, paper and publishing company which has a London stock market listing, is to acquire the Korpiwara Group in a deal worth FM 237m (\$40m).

The purchase, one of the biggest domestic takeovers ever seen in Finland, stands to more than double Amer's sales base and add a big foreign car importing business to existing trading divisions.

Korpiwara had sales last year of FM 1,099bn and net profit of FM 36m. Amer produced net profits of FM 52m from sales of FM 826m in 1983, and expects earnings for 1984 to total FM 87m.

Amer is to acquire 88 per cent of Korpiwara for shares and cash. The remaining 12 per cent of the company will be retained by the founding Korpiwara family.

At the end of 1983, the combined group had a net worth, including untaxed reserves, of FM 834m (\$90m) of which Korpiwara contributed FM 178m.

William Hall

IC Industries bids \$560m for aircraft components maker

BY WILLIAM HALL IN NEW YORK

IC INDUSTRIES, the Chicago-based conglomerate formed around the Illinois Central Gulf Railroad, has signed a definitive agreement to acquire Pneumo Corporation, a leading supplier of aircraft components, for \$560m.

Pneumo, which earned \$21.1m in the first half of the current year, is a leading supplier of aircraft landing gear, flight controls and thrust-reverser action systems for military and commercial aircraft. Military and commercial work accounts for 75 per cent of its 1983 operating profits and the Boston-based company has an aerospace order backlog of almost \$1bn.

IC which earned \$46.7m in its first six months, currently supplies the aerospace industry through its Abex operation, a producer of hydraulic pumps, motors and pump-motor packages.

Mr William Johnson, IC Industries chairman, said the acquisition of Pneumo meant that IC would "take a giant step toward achieving

some of the objectives of its long-term strategic plan."

Under the deal, which has been agreed by the boards of both companies IC Industries will purchase for \$58 a share, a 55 per cent stake in Pneumo. This will result in IC acquiring just over 8m Pneumo shares for \$309m in cash and the balance for slightly more than 9.8m unissued IC Industries shares, based upon the August 8 closing price of \$26.25. On this basis the total value of the deal is around \$560m.

In connection with the deal, Pneumo has granted IC Industries an option to purchase 2.7m shares of Pneumo at \$38 a share and an option to purchase Pneumo's Cleveland pneumatic subsidiary for \$200m.

IC Industries says that the acquisition will enhance the technology of its commercial products operations, increase Abex's share of defence programmes and strengthen the group balance sheet.

Hong Kong plans first floating rate issue

HONG KONG—the Mass Transit Railway Corporation (MTR) has approved the issue of HK\$500m in floating rate notes.

The MTR is a public statutory body, wholly owned by the Hong Kong Government.

The notes will have a maturity of eight years. Interest rate will float in line with the three-month Hong Kong interbank rate. The three-month rate is currently in the 12-13 per cent range. Investors will have the option of redeeming the notes after five years.

The MTR said the notes will be Hong Kong's first Hong Kong dollar floating rate issue. They are designed specifically to attract local investors. MTR expects to complete the issue next month. Lead managers are Morgan Guaranty and Manufacturers Hanover Asia. AP-DJ.

Contrasting results from U.S. insurers

BY OUR FINANCIAL STAFF

HALF-YEAR results from two U.S. insurance groups reflect contrasting fortunes in the sector. Continental Corporation, which owns Continental Insurance, one of the nation's largest property-casualty underwriters and has less interest in life insurance and consumer finance, lifted second quarter net operating profits from \$10.9m to \$18.3m, or from 20 cents to 30 cents a share.

well below the previous year's \$37.9m. Half-year revenues increased from \$1.84bn to \$2.23bn with the second quarter generating \$1.15bn against \$947m.

At the six-month stage, however, net operating earnings totalled \$31.7m or 58 cents a share as still

After boosting profits for the opening three months, E.F. Ahmanson saw its second quarter earnings fall to \$22.2m or 60 cents a share to \$15.6m or 58 cents a share. This lowered first half profits from \$33.8m or \$1.30 a share to \$31.2m or \$1.12 a share.

The company forecast further growth in income and a substantial rise in sales for the current year. In the fourth quarter to June 30, profit was ahead \$0.4m to \$53.1m, or from 87 cents to \$1.07 a share, making the full-time total \$143.8m, or \$4.66, against \$91.7m or \$2.96.

Annual sales soared from \$681m to \$1.27bn with an \$88.3m jump in

Commodore profits surge 57% BY OUR FINANCIAL STAFF COMMODORE INTERNATIONAL, a leading U.S. microcomputer manufacturer, boosted net profits by 57 per cent and sales by 86 per cent in the year to June.

The company forecast further growth in income and a substantial rise in sales for the current year. In the fourth quarter to June 30, profit was ahead \$0.4m to \$53.1m, or from 87 cents to \$1.07 a share, making the full-time total \$143.8m, or \$4.66, against \$91.7m or \$2.96.

Annual sales soared from \$681m to \$1.27bn with an \$88.3m jump in

World banking chief for Bank of America

Robert W. Frick has been elected vice chairman of BANK OF AMERICA and named chief of the world banking division.

CORP (Stanbic), Standard Chartered Bank's South African subsidiary, will retire in January 1985, but will become chairman of Standard Bank Investment Corporation and of the Standard Bank of South Africa.

TEXACO INC has elected Mr Joseba Thapa as vice president of the executive vice president. Mr Donald Bickmore was named division president of Texaco USA in charge of a new exploration division to be based in Los Angeles. Dr Ramsey Farley becomes director of research in Texaco's exploration and production organisation. They were all with Getty Oil Company.

PRIME COMPUTER has appointed Mr Ken Murphy, one of its senior UK managers, as managing director of its Italian subsidiary company Prime Italia SpA, based in Milan.

Mr Nigel R. Harrison has been appointed vice president—

INTERNATIONAL APPOINTMENTS

THOMSON ORGANISATION (ITOL) will have overall responsibility for financial management. He is vice president and chief financial officer of International Thomson Holdings Inc, principal U.S. subsidiary of ITOL. Mr Mark D. Knight, secretary of ITOL, has additionally been appointed as a vice president. Mr A. J. B. Mawdsley, financial director of International Thomson Organisation, principal UK subsidiary of ITOL, has decided to leave the company by the end of 1984. He will be succeeded by Mr F. F. Higgins.

AIRSPACE MANAGEMENT SYSTEMS, Brussels, has appointed Mr Alan Carnell as chairman, and Mr Giovanni Medeo as vice-chairman. Mr Carnell succeeds Mr Louis Alcatel who was the founder chairman. AMS, a multi-national joint venture company, appoints its two top executives on a rota basis to the office of the new holders. Mr Carnell is from Racal Electronics and Mr Medeo from Italtel. AMS was formed to assist NATO in the development of a joint command and control system. Member companies of AMS are Boeing and Westinghouse, U.S.; SEL Standard Elektronik Lorenz and ESSG Elektronik System Gesellschaft, West Germany; ASIA Aerospaces Alcatel and ISR Informatiche de Systemes et de Reseaux, France; Rasal-Decca and Logica, UK, and Italtel and associated members, Italy.

FT INTERNATIONAL BOND SERVICE

Swedish Kingdom 5 1/2 125 1100 100% 0 +1 5.73
Tasmanian 5 1/2 100 100% 0 +1 5.72
Tobu Railway 4 1/2 100 100% 0 +1 5.28
Tobu Railway 4 1/2 100 100% 0 +1 6.24
Translink 5 1/2 100 100% 0 +1 5.86
World Bank 6 1/2 200 100% 100 0 +0 6.14

EUROBOND TURNOVER

Table with 3 columns: U.S. \$ bonds, Last week, Previous week. Rows include 7,847.8 18,592.4, 8,115.5 19,629.8.

Monthly Income Deposit Account. With effect from 10th September 1984 interest on Midland MIDAS Accounts will be reduced by 1/2% to 10% per annum. Midland Bank plc. 27 Poultry, London EC2P 2BX.

Grindlays Bank p.l.c. Interest Rates. Grindlays Bank p.l.c. announces that its base rate for lending will change from 11 1/4% to 11% with effect from August 13 1984. The interest rates paid on call deposits will be: call deposits of £1,000 and over 8% (call deposits of £300-£999 7%). Rates of interest on fixed deposits of over £5,000 will be quoted on request. Enquiries: Please telephone 01-930 4611.

FT INTERNATIONAL BOND SERVICE. U.S. DOLLAR STRAIGHTS, U.S. BONDS, DEUTSCHE MARK STRAIGHTS, CONVERTIBLE BONDS, EUROBOND TURNOVER, STRAIGHT BONDS, FLOATING RATE NOTES, CONVERTIBLE BONDS.

Company Notices. INTERFIRST TEXAS FINANCE N.V. US\$100,000,000. Guaranteed Floating Rate Notes due 1989. In accordance with the provisions of the Notes, notice is hereby given that for the three months' period, 10th August 1984 to 13th November 1984, the Notes will carry a Rate of Interest of 13 1/4% per annum with a Coupon Amount of US\$318.32. Agent Bank CHEMICAL BANK.

FT EUROPEAN TOP 500 SURVEY. REPRINTS OF A SERIES OF ARTICLES ARE NOW AVAILABLE FROM: Nicola Bankam, Publicity Department, Financial Times, Bracken House, 10 Cannon Street, London EC4P 4BY. Price £2.50.

Hongkong Bank announces that on and after 13th August, 1984 the following annual rates will apply. Base Rate... 11% Deposit Rate (basic) 8% (Previously 11 1/2% (Previously 8 1/2%). The Hongkong and Shanghai Banking Corporation, The British Bank of the Middle East, Wardley London Limited.

Amer Group Ltd. Notice of an Extraordinary General Meeting. An extraordinary general meeting of Amer Group Ltd. will be held on Thursday, 23rd August, 1984 at 8.00pm at the Group's headquarters in Tuusula, Finland. On 30th January 1984 the annual general meeting passed a resolution to increase the share capital up to FM 159,740,000 by issuing new shares not later than 30th January 1985.

UK COMPANY NEWS

RECENT ISSUES

FINANCIAL TIMES MEDIA INTELLIGENCE SERVICE

TELEVISION + RADIO + COMPUTER + VIDEO + AUDIO + PROGRAMS + SATELLITE BROADCASTING + NEWS

Weekly News Briefing Service (Media Monitor) Annual Industry Surveys (Key Issues) Company Profiles Consultancy Market/Statistical Studies

The FT Business Information Service offers a comprehensive information package, through its Media Intelligence Unit, for all those associated with the media communications market.

SEND FOR A FREE SPECIMEN ISSUE OF MEDIA MONITOR (The weekly news briefing service condensing facts and figures from over 150 international publications)

Request form for Media Intelligence Service, including fields for Name, Position, Organisation, and Address.

All the Ordinary Shares have been allotted. This announcement appears as a matter of record only.



Gold Peak Industries (Holdings) Limited

NEW ISSUE AND OFFER FOR SALE of 63,000,000 Shares of \$0.50 each at \$1.50 per Share

Underwritten by SCHRODERS & CHARTERED LIMITED

The principal activities of the Group are the development, manufacture and marketing of batteries and audio equipment.

- GP Electronics Limited GPI International Limited GPI (Japan) Limited Gold Peak Industries (Taiwan) Limited HBS Marketing (Asia) Limited Sylva Industries Limited Whitehill Property Limited

The 63,000,000 Shares in issue are listed on the principal Stock Exchanges in Hong Kong.

DERWENT VALLEY HOLDINGS plc Share Capital table and company information.

Overseas sales boost Thames TV to £13m

Thames Television had a record year for advertising revenue and overseas programme sales...

Mr Dundas says it is reasonable to describe the outlook for the current year as "bright", but emphasises that profit levels would be far from satisfactory without the continuing growth of programme sales overseas.

This reliance on a subsidiary activity is unsatisfactory, he says, and adds that efforts must continue through the company to increase overall efficiency and productivity.

He says Channel Four Television made welcome advances towards gaining the revenue based in the London area which is necessary to support its costs.

However, it remains a substantial commitment—Thames' subscription being £20.94m plus a proportion of IBA rental.

Mr Dundas, but he has been encouraged by progress made on the programme side by Channel Four and encouraged by the distinctive identity which the Channel is achieving.

Prout before tax and exchequer levy for this unquoted company was £16.17m (£9.03m) with exchequer levy amounting to £2m (£1.75, 000).

After tax of £5.6m, profits amounted to £7.55m, of which £3.78m was distributed as dividends, representing a proposed final dividend of 3.7p a share, and an interim dividend paid of 4.2p per share. Retained profits were £3.78m.

RioZim setback at interim stage

FIRST-HALF 1984 earnings of Rio Tinto Zimbabwé (RioZim) have dropped to £21.36m (£203,000) from £23.09m in the same period of last year...

The Tinto Industries subsidiary enjoyed a 231m rise in sales revenue to £27m in the half-year. But depreciation and interest charges also rose and there was a loss at the Veldmaster associated company.

Turnover fell by £21.9m compared with a year ago, mainly because of the absence of nickel and copper sales; following the closures of Empress and the base metals refinery RioZim's major mining activity is now the Renca gold mine and this encountered power on grades in the latest period.

The Tinto Industries subsidiary enjoyed a 231m rise in sales revenue to £27m in the half-year. But depreciation and interest charges also rose and there was a loss at the Veldmaster associated company.

Consolidated has lifted net profits for the first half of this year to £228,067 compared with £144,089 in the same period of 1983.

The latest period does not include a surplus of £484,101 from the sale of virtually all the holding of Witwatersrand (Nigel) shares which will be transferred to non-distributable reserve.

ERC is keeping the money on short term deposit in South Africa until the outlook for longer term investment becomes more favourable. The company expects to pay a 1984 dividend of not less than the 1.15p distributed for last year.

Mr Füssel has arranged to place the ordinary shares in respect of which acceptances have been received with persons acting in concert he will then own a total of 69,950 ordinary and 43,471 Preference, together representing 50.07 per cent of the voting capital.

COMPANY NEWS IN BRIEF

Northern Engineering Industries Africa, the 62.5 per cent owned South African subsidiary of Northern Engineering Industries, increased pre-tax operating profit from R8.8m (£4.2m) to R11.1m in the six months to April 30 1984.

Turnover of this manufacturer and supplier of heavy industrial equipment fell from R105.7m to R86.2m in the same period. In the full year 1983 operating profit was R25.9m and turnover R210m.

First half earnings rose from 90.1 cents to 124 cents and the interim dividend has been raised from 30 cents to 38 cents per share.

Earnings in 1983 were 310.6 cents and the total dividend was 115 cents.

Pre-tax profits at Goode Durrant & Murray Group fell from £1.0m to £0.9m in the six months to end April 1984.

At the last full year end, reporting results slightly down at £2.62m (£2.77m), Mr L. E. Robinson, the chairman of this banking services, financing and property development group, was optimistic about the company's future.

Turnover for the half year improved from £28.95m to £35.12m.

Owen & Robinson, jeweller and diamond merchant, made losses, before tax of £2,233 in the year to May 31 1984 against £3,901 before. Turnover was £1.05m, compared with £1.03m.

There was a tax credit of £2,225 (£1,427 charge) but extra ordinary profits slipped from £23,997 to £13,442. Losses per £1 share, before the extraordinary items, were 7.76p (8.17p). There is no final dividend, but

After tax of £545,000 (£440,000) and minorities £17,000 (£12,000) earnings per ordinary share are shown at 1.4p (2.3p).

Pre-tax profits of Davies & Metcalfe, mechanical and electrical engineering firm, were £715,000 to £485,000 for the first half of 1984, on reduced sales of £4.68m, against £4.91m. Results include 11 months trading by the company's overseas subsidiary.

There has recently been a significant improvement in the value of orders in hand throughout the group which will result in an improved level of trading. Prospects are encouraging, the directors state.

After tax of £238,000 (£372,000) earnings per 10p share dropped from 6.35p to 4.21p. The net interim dividend is unchanged at 0.63p—last year's final was 1.55p and taxable profits totalled £822,982 (£1,011m).

Owen & Robinson, jeweller and diamond merchant, made losses, before tax of £2,233 in the year to May 31 1984 against £3,901 before. Turnover was £1.05m, compared with £1.03m.

There was a tax credit of £2,225 (£1,427 charge) but extra ordinary profits slipped from £23,997 to £13,442. Losses per £1 share, before the extraordinary items, were 7.76p (8.17p). There is no final dividend, but

After tax of £545,000 (£440,000) and minorities £17,000 (£12,000) earnings per ordinary share are shown at 1.4p (2.3p).

Wm. Cook maintains progress to £0.6m

The improvement in performance at William Cook & Sons (Sheffield), first reflected in last year's results, has been satisfactorily maintained.

On sales of £5.98m, against £5.15m, pre-tax profits of this steel founder advanced from £44,000 to £575,000 for the year to March 31 1984. At halfway, feasible figures were ahead from £92,000 to £248,000.

The year's dividend is lifted by 1p to 2.5p net, with a final of 1.5p. Earnings per 20p share increased from 6.12p to 11.4p.

Tax took £5,000, against £38,000, while £750,000 of deferred tax was transferred from reserves. Last year, there was also an extraordinary charge of £83,000.

The expansion of markets and production has continued successfully, the directors report. Construction of a heavy foundry in under way to give the company a great increased overall manufacturing capability and improved competitiveness.

Burton dismisses bid speculation

The Burton Group, retail clothing chain, yesterday dismissed itself from takeover speculation which last week drove up the price of Woolworth's 5p to a high for the year of 53.5p.

"Burton does not have plans to bid for Woolworth or any other major retailer," said Mr Michael Wood, the clothing group's finance director. The Burton Group, however, recently paid an undisclosed sum for two Woolworth stores in Oxford Street and Liverpool.

"Obviously, we are in discussions with a view to acquiring an integrated food and wine group," said Mr Wood. The disposals are part of Woolworth's policy of pulling out of stores which give an inadequate return.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange, which are usually held for the purpose of considering dividends. Official indications are not given where the forthcoming board meetings are interim or final and the sub-divisions shown below are based mainly on last year's annual reports.

Table of board meetings with columns for Company Name, Date, and Notes.

U.S. \$125,000,000 THE MORTGAGE BANK AND FINANCIAL ADMINISTRATION AGENCY OF THE KINGDOM OF DENMARK

Guaranteed Floating Rate Notes due 1999 Series 95 Redeemable at the Notcholders' Option in 1996

Notice is hereby given that the Rate of Interest for the second one-month sub-period has been fixed at 12 1/4% p.a. and that the interest payable for the second one-month sub-period in respect of U.S.\$10,000 nominal of the notes will be U.S.\$103.87.

This amount will accrue towards the interest payment due October 15, 1984.

August 13, 1984, London By: Citibank, N.A. (CSI Dept), Agent Bank CITIBANK

Today's Rate 12 1/4% 3i Term Deposits

Deposits of £1,000-£50,000 accepted for fixed terms of 3-10 years. Interest paid half-yearly. Rates for deposits received not later than 24.8.84 are fixed for the term shown.

Table of interest rates for 3i Term Deposits across various terms.

RECENT ISSUES

EQUITIES

Table of equity prices and changes for various companies.

FIXED INTEREST STOCKS

Table of fixed interest stock prices and changes.

"RIGHTS" OFFERS

Table of rights offers for various companies.

SHARE STAKES

Patrol Electronics - Hill Samuel Investment Management, as associates of Patrol, have sold on behalf of a discretionary investment client 10,000 ordinary shares at 240p.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table.

Table of pending dividends with columns for Company Name, Date, and Amount.

FINANCIAL TIMES STOCK INDICES table showing various market indices.

LADBROKE INDEX table showing index values.

Closing prices, August 10

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Main table containing stock symbols, prices, and volume data for various companies listed on the NYSE. Includes columns for 12 Month High/Low, Stock symbols, and Price/Volume (P/V) information.

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AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, August 10

Table of American Stock Exchange Composite Closing Prices for August 10, 1984. Columns include stock symbols, prices, and changes. Includes sub-sections like C-C-C, E-E-E, F-F-F, G-G-G, H-H-H, I-I-I, J-J-J, K-K-K, L-L-L, M-M-M, N-N-N, O-O-O, P-P-P, R-R-R, S-S-S, T-T-T, U-U-U, V-V-V, W-W-W, X-X-X, Y-Y-Y, Z-Z-Z.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Table of New York Stock Exchange Composite Closing Prices. Columns include stock symbols, prices, and changes. Includes sub-sections like Continued from Page 14, A-A-A, B-B-B, C-C-C, D-D-D, E-E-E, F-F-F, G-G-G, H-H-H, I-I-I, J-J-J, K-K-K, L-L-L, M-M-M, N-N-N, O-O-O, P-P-P, Q-Q-Q, R-R-R, S-S-S, T-T-T, U-U-U, V-V-V, W-W-W, X-X-X, Y-Y-Y, Z-Z-Z.

Notes and footnotes regarding stock prices, dividends, and company information. Includes text about stock figures, dividends, and company names.

WORLD VALUE OF THE DOLLAR every Friday in the Financial Times

WORLD STOCK MARKETS

OVER-THE-COUNTER

Nasdaq national market. Closing prices, August 10

Table of stock prices for various companies, including columns for stock name, price, and change. Includes sub-sections for 'Continued from Page 15' and 'Continued on Page 17'.

CANADA

TORONTO Closing prices August 10

Table of Canadian stock prices, including columns for stock name, price, and change.

AUSTRIA

1984 High Low Aug. 10 Price

Table of Austrian stock prices, including columns for stock name, price, and change.

JAPAN

1984 High Low Aug. 10 Price

Table of Japanese stock prices, including columns for stock name, price, and change.

AUSTRALIA

1984 High Low Aug. 10 Price

Table of Australian stock prices, including columns for stock name, price, and change.

AMERICAN STOCK EXCHANGE CLOSING PRICES

Table of American stock exchange closing prices, including columns for stock name, price, and change.

MONTREAL

Closing prices August 10

Table of Montreal stock prices, including columns for stock name, price, and change.

GERMANY

1984 High Low Aug. 10 Price

Table of German stock prices, including columns for stock name, price, and change.

HONG KONG

1984 High Low Aug. 10 Price

Table of Hong Kong stock prices, including columns for stock name, price, and change.

ITALY

1984 High Low Aug. 10 Price

Table of Italian stock prices, including columns for stock name, price, and change.

SWEDEN

1984 High Low Aug. 10 Price

Table of Swedish stock prices, including columns for stock name, price, and change.

SINGAPORE

1984 High Low Aug. 10 Price

Table of Singapore stock prices, including columns for stock name, price, and change.

SWITZERLAND

1984 High Low Aug. 10 Price

Table of Swiss stock prices, including columns for stock name, price, and change.

NORWAY

1984 High Low Aug. 10 Price

Table of Norwegian stock prices, including columns for stock name, price, and change.

NEW YORK

1984 High Low Aug. 10 Price

Table of New York stock prices, including columns for stock name, price, and change.

ENERGY REVIEW every Wednesday in the Financial Times

Handwritten Arabic text at the bottom center of the page.

INSURANCE

Life business continues to roll along

BY EMC SHORT

LIFE ASSURANCE in the UK continues to roll merrily along, in contrast to the general insurance side where all is gloom and despondency following last week's interim figures from Commercial Union Assurance.

Figures for new individual life and pensions business in the second quarter of this year, published last week by the three life associations, the Life Offices' Association, the Associated Scottish Life Offices and Industrial Life Offices Association, showed that regular premium business is more than holding its own in spite of the loss of tax relief on premiums in the Budget, while single-premium business continues to bound ahead.

The notable success story in the UK life assurance industry remains the strong growth in single premium-linked bond sales. These seem to go from strength to strength. Sales in the second quarter rose nearly 50 per cent from £342m to £510m.

This brought linked bond sales in the first six months to £991m, missing £1m by a whisker. Sales for the whole of 1983 only amounted to £740m, while last year they reached £1.44bn.

One big factor in this growth has been traditional life companies' establishment in the single-linked field. These companies only seriously entered the linked life business during the past few years, having previously eschewed this new field. Now they are becoming a force in the sector comparable with

Reported Linked Life Single Premium Sales £m (1983)

the established linked life companies. Only a handful of life companies report half-yearly new business results. However, from the figures available one can see from the table the growing influence of traditional life companies in the linked sector, at least as far as single premium life bonds are concerned.

This influence can be expected to increase as more traditional companies become established in this field. The second success story for the UK life assurance industry is the continued buoyancy of the self-employed pensions market. Second quarter sales of regular premium contracts almost doubled to £99m, while single premium contracts rose by more than 100 per cent to £156m.

However, these second-quarter figures were inflated by a special factor that may only have a one-off effect. There were fears early in May that the Government was about to cut back on tax concessions for

pensions in this year's Finance Act and sales soared in the few days before the Government denied these rumours. Nevertheless, life companies are reporting a strong underlying trend in sales and there are growing expectations that Mr Nigel Lawson, the Chancellor of the Exchequer, will hit pensions tax concessions in next year's budget to finance the expected cut in income tax.

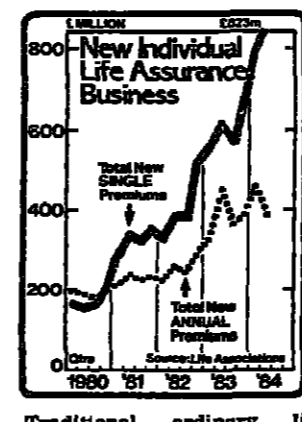
What has happened to regular premium life contracts since the Chancellor ended tax relief on these premiums? Sales in the second quarter did fall substantially against sales in the second quarter of last year. New annual premiums on traditional ordinary life business dropped 40 per cent from last year, from £268m to £167m. New annual premiums on linked-life business were 17 per cent down from £76m to £63m. Industrial life business, where premiums are paid weekly or four-weekly and collected at the homes of policyholders, had an 8.5 per cent drop from £58m to £54m.

However, two special features affected these figures. Certain Budget proposals were leaked 10 days prior to their delivery, one of them was the loss of life assurance premium relief. There was a rush of business as many people took out contracts to qualify for tax relief ahead of the Budget. Some of this business would have been done in the second quarter. With this in mind, the figures for the drop in linked life and industrial life look reasonable.

Traditional ordinary life business was also affected by another factor. Last year, sales boomed with the changeover to Miras, the new system of crediting tax relief on mortgage interest.

This made repayment of a mortgage by a life policy more attractive than under the old system. There was a flood of business from householders who changed their system. Compared with two years ago, regular premium traditional life business is about 50 per cent ahead. Royal Life reported this year that sales of new mortgage related contracts in the first six months were 50 per cent up on sales of new contracts last year.

The new business figures for the third and fourth quarters should give a better indication of the effect of the loss of tax relief.



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The new business figures for the third and fourth quarters should give a better indication of the effect of the loss of tax relief.

CONTRACTS

£23m Dubai airport terminal

Construction of the new £23m arrivals terminal at Dubai International Airport has been awarded to BALFOUR BEATTY CONSTRUCTION in joint venture with DUBAI TRANSPORT (FVT). Work is expected to take 20 months with completion by mid-1988. The new terminal will be architecturally similar to the existing terminal and in addition to the arrivals facilities will house the offices of the civil aviation department and airlines. The need for a second terminal arises from the growth in passenger and cargo traffic through Dubai and the new terminal will enable the airport to handle over 5m passengers a year. The client is the Department of Civil Aviation of the Dubai Government. International Bechtel Inc are the consultants.

WIMPEY has won three orders totalling £2.65m. Plymouth City Council has awarded a £1.75m contract for replanning an existing building at Sharoe Green Hospital to form a new obstetric and gynaecology unit. Work starts in September. The company has a third contract at the Mayday Hospital in Croydon. The latest, valued at £1.29m, runs for 104 weeks, and involves alterations and upgrading of existing buildings to provide a rehabilitation unit with a hydro-therapy pool together with generic wards, slatted roof, trussed rafters, suspended ceilings and aluminium doors and windows. Work has started and

Norwest Holst wins £12m cement works construction

A £12m contract has been awarded to NORWEST HOLST CIVIL ENGINEERING for construction at KETTON Cement works as part of a modernisation programme to achieve a new 3,000 tonnes per day dry process plant. The contract covers civil engineering work associated with the new kiln installation consisting of crushing plant, raw material transport and storage, preheater tower and kiln foundations, clinker and cement handling and storage, together with ancillary services. The work is to have phased completion to suit the mechanical engineering work over a period of about 18 months. The contract was awarded by Polysius, who are modernising the works for Ketton Cement, a member of the RTZ Group. Consulting engineer for the civil engineering work is Oscar Faber.

JOHN LAING CONSTRUCTION has won orders together worth £3.79m. At Swinton the company has a contract worth £1.4m to modernise 178 council houses for the Salford City Council, in 60 weeks from September. A £1.3m contract worth £1.1m for replanning an existing building at Sharoe Green Hospital to form a new obstetric and gynaecology unit. Work starts in September. The company has a third contract at the Mayday Hospital in Croydon. The latest, valued at £1.29m, runs for 104 weeks, and involves alterations and upgrading of existing buildings to provide a rehabilitation unit with a hydro-therapy pool together with generic wards, slatted roof, trussed rafters, suspended ceilings and aluminium doors and windows. Work has started and

CHIVERS Our business has been building since 1884. 21 Essex Street, Deventer. Witham SS10 1LL. Tel: 0280 213 479/930. CHIVERS WE CHIVERS & SONS LTD

Willett has £5m orders

WILLETT has been awarded contracts with a total value of £5m. A warehouse and office is to be built at Endeavour Way for the London Borough of Merton, with an adjoining service bay and one industrial unit. The warehouse is to be a distribution centre for W. H. Smith (£790,000). The old Woolworths store in Barseley is to be converted to several self-contained retail units for a Partnership Development (£570,000). Extra units are to be constructed at Gillingham Business Park in Kent. The work for car showroom developments, is valued at £1.6m and consists of four blocks of two industrial units with integral car parking. The contract is to be completed by March 1985. Refurbishment work is continuing at Dial House, Shaftesbury Major extension and alteration work worth £1m is to take place at Sainsbury's Angel Lane supermarket in Tonbridge. The contract includes extensions to an adjoining building. Completion is due in May 1985. Willett is part of Trollope & Collis Holdings, UK building division of Trafalgar House.

OVER-THE-COUNTER

Table with multiple columns showing stock prices and market data for various companies and indices.

ISSUE OF £950,000,000 10 1/2 per cent TREASURY CONVERTIBLE STOCK, 1992

MINIMUM TENDER PRICE £95.25 PER CENT PAYABLE AS FOLLOWS Deposit with tender £100.00 per cent £130.00 per cent On Monday, 10th September 1984 £130.00 per cent On Monday, 8th October 1984 Balance of purchase money

will be made to tenders whose tenders are at or above the lowest price at which Her Majesty's Treasury decide that any tender should be accepted (the allotment price), which will be not less than the minimum tender price. All allotments will be made at the allotment price; tenders which are accepted at a price above the allotment price will be allotted in full or in part only. Any balance of stock not allotted to tenders will be allotted at the allotment price to the Governor and the Company of the Bank of England, Issue Department.

THIS FORM MAY BE USED TENDER FORM

ISSUE OF £950,000,000 10 1/2 per cent TREASURY CONVERTIBLE STOCK, 1992

MINIMUM TENDER PRICE £95.25 PER CENT TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND I/we tender in accordance with the terms of the prospectus dated 10th August 1984 as follows:-

Indices NEW YORK DOW JONES 1984 Since Comp'n High Low High Low

Indices AUSTRALIA All Ops. (1/188) Metal & Min. (1/188) AUSTRIA Credit Aktien (2/188) BELGIUM Belgian Sec (8/11/83) DENMARK Copenhagen SE (5/1/88) FRANCE CAC General (8/1/82) COMMERCE (1/1/83) GERMANY FAZ Aktien (8/1/83) COMMERCE (1/1/83) HONG KONG Hang Seng Bank (5/1/84) ITALY Milan Comm Ital. (18/7) 218.9

Table with multiple columns showing stock prices and market data for various companies and indices.

Amount of Stock tendered for £100-£1,000 £1,000-£10,000 £10,000-£50,000 £50,000 or greater

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Tr. Mgrs. (a), High Income, and others, with columns for fund names and performance metrics.

FT UNIT TRUST INFORMATION SERVICE

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F.T. CROSSWORD PUZZLE No. 5,490

- ACROSS
1 Disarm an animal of French Cape, perhaps (6)
4 Warning of course thrown down to estimate (5)
10 Everything, for example, Roland Olvfer initially stood for is fast (7)
11 Put it right in the gallery to analyse the constituents (7)
12 The Gibraltar beat? (4)
13 I'm cited—feel indignant about the water (10)
15 Branch at Turkish capital—paid for (6)
16 Check on young Malcolm about to shake the dice (7)
20 Filled with exhaustion commonly (7)
21 A Rannoch organisation that prevents drift (6)
24 Get a horse for my French aunt? ... well, virtually! (10)
25 Nastily smell before the ship commander (4)
28 Confirm the finish with headless code (7)
29 Shellac on items can cover a poisonous plant (7)
30 Arguing from this is convincing (8)
31 Arrange seats around a point to create effects (8)
DOWN
1 Inevictive sounds likely to turn the Mohawks white perhaps (8)
2 Exclamation to the colonel returning to Austria and finding total destruction (8)
3 Fume about the French station (4)
5 Try a difficult duet and pose to overcome (8)
6 Former strains sound like additions (10)
7 Lower a foundation (5)
8 The art set arranging outings perhaps (6)
9 Protection for a hundred also ... (5)
14 ... and, for the cook below, where he parks his aircraft, maybe (5)
17 Fabled Cypriot maiden who represents nothing on the tennis court (9)
18 Ride around fast with fragrant result (5)
19 Theatre assistants in the kitchen? (8)
22 Emphasise a direction to lock (6)
23 Can NALGO supply a chronicle item? (5)
25 Drain to the very bottom (5)
27 Common sense we French possess (4)
The solution to last Saturday's puzzle will be published with names of winners next Saturday.

Crossword puzzle grid with numbered squares for clues.

INSURANCES section containing various insurance company advertisements and details.

Financial Times continuation of unit trust information, including various fund listings and performance data.

AUGUST 13 1984

هكذا صدقنا القول

Financial Times Monday August 13 1984

Table of financial data including company names, stock prices, and market indices.

INSURANCE, OVERSEAS & MONEY FUNDS

Table listing various insurance and overseas investment funds with their respective details and prices.

OFFSHORE AND OVERSEAS

Table listing offshore and overseas investment funds, including international and global equity funds.

Table listing money market bank accounts, including various bank offers and interest rates.

NOTES: Information regarding interest rates, currency values, and other financial notes.

"Income Driven" An investment strategy for today's markets



BRITISH FUNDS

Table of British Funds with columns for Fund Name, Stock, Price, and Yield.

Five to Fifteen Years

Table of funds categorized by 5 to 15 year maturity.

Over Fifteen Years

Table of funds categorized by over 15 year maturity.

Undated

Table of undated funds.

Index-Linked

Table of index-linked funds.

CORPORATION LOANS

Table of Corporation Loans.

COMMONWEALTH AND AFRICAN LOANS

Table of Commonwealth and African Loans.

LOANS

Table of general Loans.

Public Board and Ind.

Table of Public Board and Industrial funds.

Financial

Table of Financial funds.

FOREIGN BONDS & RAILS

Table of Foreign Bonds and Rails.

FT LONDON SHARE INFORMATION SERVICE

AMERICANS

Table of American stocks including companies like IBM, GE, and Ford.

BEERS, WINES—Cont.

Table of Beer and Wine stocks.

BUILDING INDUSTRY

Table of Building Industry stocks.

BEERS, WINES—Cont.

Table of Beer and Wine stocks.

DRAPERY & STORES—Cont.

Table of Drapery and Stores stocks.

BEERS, WINES—Cont.

Table of Beer and Wine stocks.

ENGINEERING—Continued

Table of Engineering stocks.

BEERS, WINES—Cont.

Table of Beer and Wine stocks.

INDUSTRIALS (Miscel.)

Large table of Industrial stocks including various companies.

CANADIANS

Table of Canadian stocks.

BANKS, HP & LEASING

Table of Banks, HP & Leasing stocks.

BEERS, WINES & SPIRITS

Table of Beer, Wine & Spirit stocks.

CHEMICALS, PLASTICS

Table of Chemical and Plastic stocks.

DRAPERY AND STORES

Table of Drapery and Stores stocks.

FOOD, GROCERIES, ETC

Table of Food, Groceries, etc. stocks.

ENGINEERING

Table of Engineering stocks.

HOTELS AND CATERERS

Table of Hotels and Caterers stocks.

ENGINEERING

Table of Engineering stocks.

Financial Times Monday August 13 1984

INDUSTRIALS—Continued

Table of industrial stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

LEISURE—Continued

Table of leisure stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

PROPERTY—Continued

Table of property stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

INVESTMENT TRUSTS—Cont.

Table of investment trusts including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

OIL AND GAS—Continued

Table of oil and gas stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

International Financier DAIWA SECURITIES logo and header.

MINES—Continued

Table of mining stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

MOTORS, AIRCRAFT TRADES

Table of motor and aircraft trade stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

SHIPPING

Table of shipping stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

SHOES AND LEATHER

Table of shoes and leather stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

SOUTH AFRICANS

Table of South African stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

TEXTILES

Table of textile stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

NEWSPAPERS, PUBLISHERS

Table of newspaper and publisher stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

PAPER, PRINTING

Table of paper and printing stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

TOBACCO

Table of tobacco stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

OVERSEAS TRADERS

Table of overseas trader stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

PLANTATIONS

Table of plantation stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

INSURANCES

Table of insurance stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

PROPERTY

Table of property stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

OIL AND GAS

Table of oil and gas stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

REGIONAL & IRISH STOCKS

Table of regional and Irish stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

LEISURE

Table of leisure stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

PROPERTY

Table of property stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

OIL AND GAS

Table of oil and gas stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

DIAMOND AND PLATINUM

Table of diamond and platinum stocks including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

OPTIONS—3-month call rates

Table of 3-month call rates including companies like British Airways, British Petroleum, and various engineering firms. Columns include Stock, Price, and % Change.

Notes and disclaimer text at the bottom of the page.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Confusion surrounds the dollar

BY COLIN MILLHAM

Trading in the dollar was rather confused last week. There are obviously still elements of the U.S. currency anxious to guarantee that any news open to various interpretations will benefit the dollar.

THE POUND SPOT AND FORWARD

Table with columns: Aug 10, Day's spread, Close, One month, % Three months, % Six months. Rows include U.S., Canada, Belgium, etc.

OTHER CURRENCIES

Table with columns: Aug. 10, £, \$, Note Rates. Rows include Argentina, Australia, Brazil, etc.

EMS EUROPEAN CURRENCY UNIT RATES

Table with columns: Currency, Central bank, % change, % change adjusted, Divergence limit. Rows include Belgium, France, Germany, etc.

EXCHANGE CROSS RATES

Table with columns: Aug. 10, Pound Sterling, U.S. Dollar, Deutsche Mark, etc. Rows include Pound Sterling, Deutschmark, etc.

EURO-CURRENCY INTEREST RATES (Market closing rates)

Table with columns: Aug. 10, Sterling, U.S. Dollar, Canadian Dollar, etc. Rows include Short term, 7 days notice, etc.

MONEY MARKETS

Sharp fall in London rates

London money market interest rates have fallen by about 1 1/2 percentage points since the beginning of the month and by last Friday appeared to be pointing towards another possible cut in clearing bank base rates.

expected to be an improvement over June, but the fact of 1 per cent in sterling M3 was much better than expected.

FT LONDON INTERBANK FIXING

Table with columns: Bid, Offer, 11:00 a.m. August 10, 3 months U.S. dollars, etc. Rows include 11:00 a.m. August 10, etc.

MONEY RATES

Table with columns: Aug. 10, Frankfurt, Paris, Zurich, Amsterdam, Tokyo, Milan, Brussels, Dublin. Rows include Overnight, 2 days, etc.

LONDON MONEY RATES

Table with columns: Aug. 9 1984, Starting Certificate of deposit, Interbank, Local Authority deposits, etc. Rows include Overnight, 7 days, etc.

DISCOUNT HOUSES DEPOSIT AND BILL RATES

Table with columns: Aug. 9 1984, Starting Certificate of deposit, Interbank, Local Authority deposits, etc. Rows include Overnight, 7 days, etc.

FT LONDON INTERBANK FIXING

Table with columns: Bid, Offer, 11:00 a.m. August 10, 3 months U.S. dollars, etc. Rows include 11:00 a.m. August 10, etc.

DM 2.970, the highest level for 11 years. Mr Donald Regan, U.S. Treasury Secretary, forecast lower interest rates later this year, and some dealers may be encouraged to believe him after the recent money supply figures.

On the other hand Mr Paul Volcker, chairman of the Federal Reserve Board, was rumoured to be unhappy with the market's interpretation of testimony he made before Congress last month. He is apparently more worried about inflation than the market thought, and in further testimony last week, this time before the House Foreign Affairs Committee, Mr Volcker spoke of his concern about the fast pace of credit expansion.

FORWARD RATES AGAINST STERLING

Table with columns: Forward, Spot, 1 month, 3 months, 6 months, 12 months. Rows include Dollar, French Franc, Swiss Franc, etc.

BANK OF ENGLAND TREASURY BILL TENDER

Table with columns: Aug. 10, Aug. 3, Aug. 10, Aug. 3. Rows include Bills on offer, Total of applications, etc.

THE DOLLAR SPOT AND FORWARD

Table with columns: Aug 10, Day's spread, Close, One month, % Three months, % Six months. Rows include UK, Ireland, Canada, etc.

CURRENCY MOVEMENTS

Table with columns: Aug. 10, Bank of England, Morgan Guaranty, etc. Rows include Sterling, Canadian dollar, etc.

CURRENCY RATES

Table with columns: Aug. 10, Bank of England, Morgan Guaranty, etc. Rows include Sterling, Canadian dollar, etc.

LONDON

Table with columns: U.S. Treasury Bonds, Close, High, Low, Prev. Rows include 3-Month Eurodollar, etc.

CHICAGO

Table with columns: U.S. Treasury Bonds, Close, High, Low, Prev. Rows include 3-Month Eurodollar, etc.

WEEKLY CHANGE IN WORLD INTEREST RATES

Table with columns: Aug. 10, change, Aug. 10, change. Rows include Prime rates, etc.

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WEEKLY CHANGE IN WORLD INTEREST RATES

Table with columns: Aug. 10, change, Aug. 10, change. Rows include Prime rates, etc.

APPOINTMENTS

Four top posts at Bowater Industries

Sir John Hedley Greenborough has been appointed deputy chairman (non-executive) of BOWATER INDUSTRIES.

COMBINED ACTUARIAL PERFORMANCE SERVICES

(CAPS), Leeds, has appointed Mr Peter Tennyson as chief executive. CAPS was formed in 1983 by three firms of consulting actuaries.

MERCANTILE HOUSE HOLDINGS

has appointed Mr E. A. Starmouth-Darling as a director. He is chairman of Lang and Cruickshank and a member of the council of the Stock Exchange.

GODWIN WARREN CONTROL SYSTEMS

has appointed Mr Alan Parsons, formerly managing director of Godwin Warren Engineering, as appointed managing director of Godwin Warren, the division responsible for future product diversification and expansion.

STANDARD LIFE ASSURANCE CO

has appointed the following from August 16: Mr L. C. Lundden to be assistant general manager (operations); Mr J. Skinner to be pensions (administration) manager; and Mr J. B. Simpson to be pensions (sales) manager.

CHANGE OF ADDRESS

With effect from 1st August, 1984 the address of Seattle-First National Bank will be P.O. Box 190, 1 Watling Street, London EC4M 9DA.

CONTRACTS AND TENDERS

YEMEN ARAB REPUBLIC

INVITATION TO INTERNATIONAL TENDER NO. 173 CIVIL WORK International contracting firms and first-class local contractors are invited to participate in an international tender financed by Government of Yemen Arab Republic and International Development Association for the construction of the FF Projects under Sixth Education Project 1470/YAR.

BASE RATE

BANK OF CREDIT AND COMMERCE INTERNATIONAL SOCIETE ANONYME LICENSED DEPOSIT TAKER announces that from 13th August 1984 its base rate is changed from 12% to 11% p.a.

AGNEW GALLERY

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FINANCIAL TIMES SURVEY

The prospect of rule from China has left the territory's population uncertain and apprehensive. It has not diminished, however, their commitment to economic success

HONG KONG

Compared with other parts of the world, Hong Kong remains today as "rumbustious free-booting and free of self-pity"—the description given to it by author Richard Hughes—as ever.

But, after two years of secret negotiations between Britain and China over Hong Kong's position when it returns to Chinese sovereignty in 1997, the fear of the future is apparent across the community.

There are still those who insist that 13 years is a long time, and those in less privileged positions who say with resignation that their lot is unlikely to be very different whether Britain or China claims sovereignty. But for the great majority, the negotiations which began in September 1982 have served to concentrate minds. Only now are the full implications of a return to Chinese sovereignty beginning to dawn.

As the September deadline for a Sino-British agreement nears, so the leadership in Peking has provided increasingly detailed assurances about the future. It has said the territory's economic, political and legal systems will remain "basically" unchanged for 50 years after 1997. It has promised that Hong Kong people will govern Hong Kong, and that it will retain its currency, and its independent trading status.

But still, Hong Kong people refuse to "let their hearts rest at ease," as Deng Xiaoping, China's supreme leader, has pleaded they should do for the past three years.

They puzzle over what Chinese leaders mean when they say they will "Borrowed Place, Borrowed Time" by Richard Hughes.

IN THIS SURVEY

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remain "basically" unchanged. They worry over the implications of China's insistence that People's Liberation Army troops be stationed in Hong Kong after 1997. They are fearful over the likely contents of the Sino-British agreement when it is clear there remain serious disagreements over critical issues such as land rights, nationality rights, and the nature of government administration in the territory after 1997.

Perhaps more than anything else, there is concern that the currently pragmatic regime in Peking might at some future date be replaced by a doctrine, more xenophobic one. Hence the Hong Kong Observers, an influential pressure group made up of young professionals and intellectuals, said recently: "People in Hong Kong are still suffering from memories of political upheavals and party struggles in China in recent decades."

At the heart of most fears is "the inescapable fact," as unofficial members of Hong Kong's executive and legislative councils recently wrote, "that the

Chinese Government is committed to a political philosophy which is at least incompatible, and at worst hostile, to the philosophy on which the various systems and freedoms enjoyed by Hong Kong today rest."

Deng Xiaoping has recently elaborated the idea of "one country with two systems" in

By DAVID DODWELL
Hong Kong Correspondent

an attempt to resolve this contradiction. He suggests that capitalist enclaves like Hong Kong and Taiwan will in future be able to live alongside the "socialist development" in China itself, with the two systems tolerating and complementing each other. Sir Geoffrey Howe, Britain's Foreign Secretary, recently described the concept as "visionary." While most Hong Kong people are reserving comment, there is a long way to go before many feel confident that the vision will become reality.

In the meantime, Hong Kong remains a community superven-

sive to all kinds of rumours. A politically apathetic colony driven by a single-minded preoccupation with earning money has been transformed into a politically hyperactive community with an obsessive interest in finding bolt-holes through which to escape if things go sour.

That is why the stock market has bucked erratically over the past year, with the Hang Seng index ignoring economic or commercial fundamentals to rise or plunge in response to political events in a range between 1,170 and 690.

The market rallied well from the politically induced crisis of last autumn, only to collapse dramatically when Jardine Matheson, the colony's oldest "Hong" announced it was moving its legal domicile to Bermuda. Sir Geoffrey Howe's "Black Friday" speech on April 20, in which he confirmed publicly that Hong Kong would completely revert to China after 1997, triggered a further collapse which continued unabated to the end of July.

What has most concerned

stock market observers over this time is the minuscule volume of trading interest. There has been increasingly firm evidence over the year that local people with money to invest have been seeking ways of investing it outside the colony.

Hong Kong newspapers are littered with advertisements inviting investments—and in return offering passports and homes. These have been discreetly placed from countries such as Canada and Australia, but more brazenly offered from such unlikely places as Guam, the Seychelles, Paraguay, Tonga, the Cayman Islands, Costa Rica and Mauritius.

The paradox is that this capital flight is occurring at a time when Hong Kong's manufacturing industries are doing better than at any time in the past four years. Exports during the first half of this year are 49 per cent higher in money terms than exports during the first half of 1983. While imports leapt by 39 per cent—primarily to meet manufacturers' increased needs for raw materials and other inputs—the territory's visible trade deficit fell to its lowest level for three years.

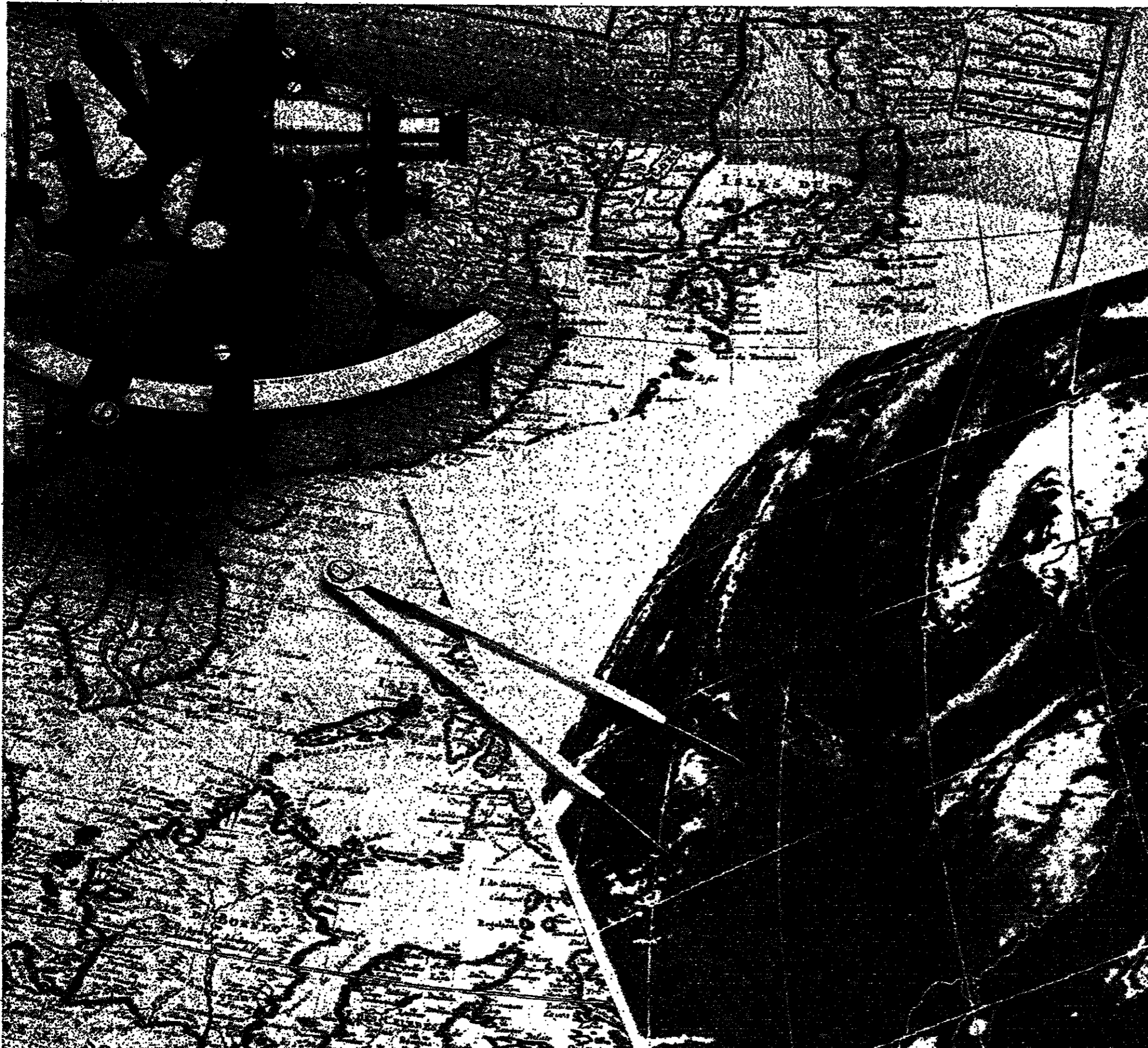
The capital flight is also being counterbalanced by a significant increase in inward investment by foreign businesses, many of whom remain keen to use Hong Kong as a springboard for business in China.

As the Hong Kong government has striven to make sense of this muddled picture, and to restore confidence and stability, it has become clear that Hong Kong people are asking less for assurances that their own freedoms and lifestyles are maintained than they are asking for commitments from Peking on the nature of government in China up to and after 1997.

Sir Geoffrey Howe's recent disclosure of a number of de-



Hong Kong's uncertain citizens, towered over now by the skyscraper institutions of capitalism. How different will it be after 1997?



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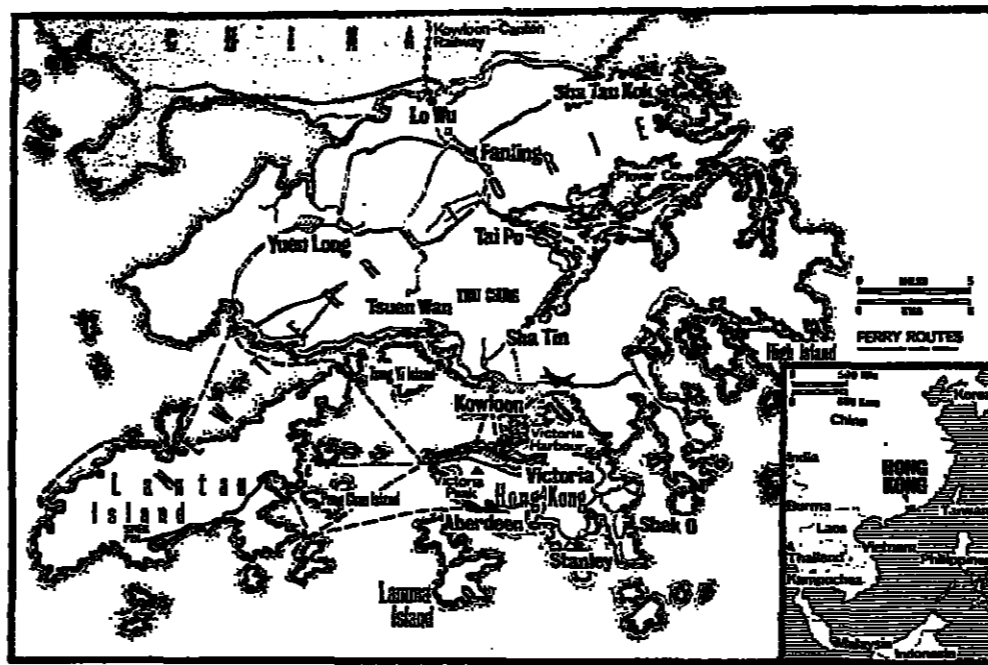
CONSOLIDATED ASSETS AT 31 DECEMBER 1983 EXCEEDED US\$60 BILLION.

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HONG KONG 2



Sir Geoffrey Howe, the British Foreign Secretary, and Wu Xuequan, his Chinese counterpart, at the crucial talks on the colony's future held in Peking last month.



PROFILE: SIR EDWARD YAUDE

Queen's man inscrutable to the last

Diplomacy, according to a phrase coined by or about Dr Henry Kissinger, is "an infinite capacity for taking planes".

When Sir Edward Youde retires as governor of Hong Kong and the city fathers debate what civic feature to remain in his honour, they might do worse than choose the territory's airport departure lounge, which has seen more than its fair share of Sir Edward in the last two years.

"Sir Edward goes to Peking" has been an inflexible, monthly feature of Hong Kong's television news for the last year, by which local viewers can set their calendars if not their watches.

Three or so days later, "Sir Edward comes back from Peking", a slight, smiling figure ducking out of the airport terminal and into a waiting limousine.

What Sir Edward actually does in Peking is an official secret. The Sino-British negotiations on Hong Kong's future, in which he participates, are invariably described only as "useful and constructive" by a harassed-looking British spokesman.

Less frequently, "Sir Edward goes to London," usually accompanied by members of his executive council (Exco).

These trips are the occasions on which Sir Edward and Exco members discover themselves to possess a "close identity of views" with the British Prime Minister and Foreign Secretary on the question of Hong Kong's future—though again, the substance of the views remains another official secret.



Sir Edward Youde: efficient administrator.

Mandarin

The secrecy surrounding the Peking negotiations has made of Sir Edward an almost furtive public figure, as he tries to find a light-hearted way of saying nothing, ducking a question, or physically escaping, a pursuing television camera.

It is the reverse of open government. Sir Edward has everything to hide.

Attempts at levity, while understandable at the time, seem heavily veiled with hindsight. Replying to questions at a local golf club, Sir Edward reportedly quips that 1997 is probably the number of strokes which it would take him to get around the course.

Humour is not Sir Edward's strong suit. He has the dry, cautious manner of a career civil servant, but without any streak of diplomatic flamboyance. He was ambassador to Peking 10 years ago, and speaks mandarin, as does his wife, Pamela.

He does not "drink" beyond a little wine at meals, and was best-known in Hong Kong before his arrival for an apocryphally-embroidered story about his certifiable as a representative of the people of Hong Kong. Peking snapped back that he did no such thing—he negotiated as a member of the British delegation, and nothing else.

China's barb was the sharper for being well-aimed. A bluff, popular Sir Murray

Robert Cottrell

Democracy moves on to the agenda

AUGUST IS usually a sleepy month for Hong Kong's political and community leaders and pressure group activists. It is the month most senior civil servants take annual leave and when the colony's ruling bodies go into summer recess. But there will be no signs of sleepiness this year.



Ways of making government more representative are being debated. China's view remains crucial, however

Members of the Executive Council and Legislative Council are attending special debates impinging on the recess period. They have been asked to be "on call" throughout August. Meanwhile, pressure groups across the political spectrum are holding conferences and seminars and mounting intensive lobbying campaigns.

This exceptional activity is no doubt indirectly due to the imminent deadline for a Sino-British agreement on the future of Hong Kong after 1997—an issue that has electrified a usually apathetic political community. But above all else, it is due to the recent publication of a government Green Paper on political reform in the colony.

The coincidence of debate over the Green Paper and on 1997 is to some extent accidental. The proposals in the Green Paper should be seen in the context of political reforms that have been taking place over a number of years and have been published now so that further reforms can be smoothly deve-

to 1989 and as such will determine the speed and direction of political change right up to the critical moment when Hong Kong returns to Chinese control in 1997.

China has committed itself to offering Hong Kong people "ganguen zhisang"—which roughly means "Hong Kong people ruling Hong Kong." But local political figures realise this gives no assurance of democracy, and are keen to lay the foundations of a more representative form of government well before China assumes power as the only hope of cementing democratic freedoms for the territory.

The need for further political reform has become increasingly obvious over the past two years. It did not need Mr Edward Heath's curt dismissal of the recent delegation to London of Hong Kong's political appointees as unrepresentative to make local people aware of the need for change.

Britain's negotiating position with the Chinese Government over the future of Hong Kong has always been weakened by the fact that the Hong Kong people on whom it depended to keep it abreast of public opinion were appointed by the Governor rather than elected.

The colony's two highest ruling bodies—the Executive Council (Exco) which acts as an inner cabinet and meets in camera, and the Legislative

Council, equivalent to Britain's Parliament—are made up exclusively of government bureaucrats, called "officials," and individuals appointed by the Governor, called "unofficials."

Only at the less influential level of the Urban Council and District Boards do direct elections play any part, and even then for only a proportion of the seats on these bodies.

Up to now, successive Governments in Hong Kong have insisted that this highly restricted form of participative democracy has worked effectively. As recently as May this year, when a delegation of "unofficial" members of the Executive and Legislative Councils visited London to lobby MPs on Hong Kong people's concerns over 1997, their main statement said: "Unofficial members make no claim to representative status, but they are in touch with all sectors of the community through their membership of over 300 boards and committees dealing with public affairs, and with all the facets of Hong Kong's economic and social life."

As such, they insisted they were "in a position to reflect the views and wishes of Hong Kong people" and despite their un-elected status.

Despite this claim—which by all accounts, on the 1997 issue, is probably valid—the delegation was under constant attack during its visit to the UK,

with questions constantly being raised about its right to claim to speak for Hong Kong people.

Worse still, when three senior members of the Executive and Legislative Councils went as a delegation to Peking in June, they were told in terms verging on the rude that they came in their individual capacities rather than as spokespeople for Hong Kong by no less a person than Deng Xiaoping, China's supreme leader.

The Green Paper is in part an answer to these criticisms, though it does its cap to the principles of democracy rather than paves the way to truly representative government.

Under the present proposals, the Executive and Legislative Councils would still in 1997 have a majority of government officials and appointees. Even elected members would be only indirectly elected.

The detailed proposals, which will be publicly debated until early October when the Government will publish a White Paper, involve:

- Indirect election to the Legislative Council (Legco) from two sources—an electoral college made up of 430 members of Hong Kong's District Boards, Urban Council, and New Regional Council, and secondly, "functional constituencies," representing various professional associations and pressure groups.

One of the convictions behind this wariness over direct elections is that such adversarial politics are not "the Chinese way." It is argued that Chinese concerns about maintaining "face" would make respected members of the community reluctant to stand for election because of the loss of face that would be involved in defeat.

Another is that until now, Hong Kong as a community has been renowned for its political apathy. As such, government officials fear that overhasty devolution of electoral power to the grass roots would give undue power to political extremists of both the Left and the Right.

They fear Hong Kong might become a battleground for Taiwanese groups, keen to frustrate plans for the territory's smooth transition into Communist Chinese hands in 1997, and two-Peoples groups keen to eradicate "poisonous weeds."

Already, such fears have been implicit in the few comments made by Chinese officials on the Green Paper. From Peking, the only comment has been that the reforms were Britain's affair, but that China did not feel itself bound by whatever British introduces between now and 1997. From Hong Kong, one senior official of Xinhua, the New China News Agency which acts informally as China's diplomatic mission in the colony, "We would be unhappy about any arrangements that disturb the stability of Hong Kong," he said.

In the past, political leaders in Hong Kong have always taken Chinese views into careful consideration before planning any major changes, whether political or economic. Indeed, their success in doing this is one of the reasons why the colony has up to now avoided more direct interference from Peking, particularly during periods of turbulence such as the Great Leap Forward and the Cultural Revolution.

It is unlikely therefore that political changes will be proposed that are likely to alarm Peking. There would be little virtue in paving the way for full-blooded democracy if China has no intention of letting Hong Kong people walk in that direction after 1997. It would be still worse if reforms triggered political instability to a point where China felt it necessary to take control before 1997.

So in spite of the fact that Hong Kong is facing a summer of unusually hyperactive political debate, it is improbable that the Green Paper will undergo any fundamental redrafting between now and October. The "gradual approach" is likely to win the day.

As one senior Executive Council member insisted early in August: "To the outside world, these changes may seem extremely conservative, but believe me, in our situation, they are radical indeed."

David Dodwell

The Midland Mixture



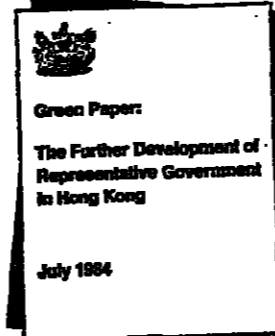
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Each source would in 1985 elect six members to Legco out of a total of 42 members. In 1988 this would be increased to 12 each, with Legco being increased in size to 50. This would leave bureaucrats and appointees with 26 seats, and in a majority of two.

● The executive council would be opened up to indirect elections in 1988. Four members of Legco would be elected to the body. This would be increased to eight in 1991. While the total number of appointees on Exco would be reduced from eight in 1988 to two in 1991, there would continue to be four officials for the foreseeable future.

● The Governor would continue to be appointed by the Queen up to 1997, but would be replaced on Legco by a president who would be elected from within the ranks of Legco members.

As Hong Kong's political commentators and pressure groups have dissected details of the Paper, so they have prepared to do battle over the need to introduce direct rather than indirect elections, at least in Legco.

For example, Dr L. K. Ding, chairman of the influential Christian Industrial Committee which campaigns on behalf of trade unions and other working class groups, said: "Reforms which ignore the need for direct elections are not steps towards democracy—they are purely cosmetic."

It is likely, however, that the only fighting they will do will be shadow boxing. Already the Government has explained in painstaking detail why the need to preserve stability, and the political traditions of Hong Kong, rule out adversarial politics for the foreseeable future.

While presenting the Green Paper, Sir Edward Youde, Hong Kong's Governor, said: "The need for stability at a crucial time dictates the gradual approach." He warned that direct elections in other political systems "had not always succeeded in generating stable, representative government."

"If it were to introduce elections to Legco now, we should run the risk of a swift introduction of adversarial politics and an element of instability at a crucial time," he said.

"The time for direct elections may come," he added. "In due course, as the political and constitutional circumstances of Hong Kong evolve, and if popular support for the idea develops, further thought will be given to the possibility."

It is unlikely therefore that political changes will be proposed that are likely to alarm Peking. There would be little virtue in paving the way for full-blooded democracy if China has no intention of letting Hong Kong people walk in that direction after 1997. It would be still worse if reforms triggered political instability to a point where China felt it necessary to take control before 1997.

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Living with China

CONTINUED FROM PREVIOUS PAGE

professional groups in the community.

Across the political spectrum, groups have complained at the small pace at which the Green Paper proposes moving towards more representative government. They are almost in unison calling for direct—rather than indirect—elections to the colony's ruling bodies before the end of the decade.

China has promised that after 1997, Hong Kong people will rule Hong Kong, but it has stopped short of suggesting that such rule will be democratic. So many political and community groups in the colony have recognised the unless democratic practices are introduced now, they are unlikely to be introduced at all. This recognition has triggered a level of political activity that is unprecedented in the territory.

The Government has argued that direct elections are not "the Chinese way"—that concern about possible loss of face would keep some of the best candidates from standing for election. It has also argued that the hasty introduction of "adversarial politics" might be

destabilising at a critical stage in the territory's history. At this stage it is difficult to predict whether or not the Government will bend to public pressure on the issue of direct elections.

The political issues of the summer have captured the imaginations of pressure group leaders, but have brought some sharp jolts to the community's appointed leaders on the executive and legislative councils, who have suddenly realised that no-one knows who Peking will allow to hold the reins of power after 1997.

One senior executive council member spoke for many last week when she said: "Our role used to be advisory, but now it is political. None of us are politicians, but now we are going to have to learn very fast."

When Richard Hughes, wrote "Borrowed Time," *Borrowed Time* "16 years ago, he claimed that "Borrowed time is as good as any." Even amid present uncertainties he may be right. But when borrowed time is running short, he is likely to offer such political figures little comfort.

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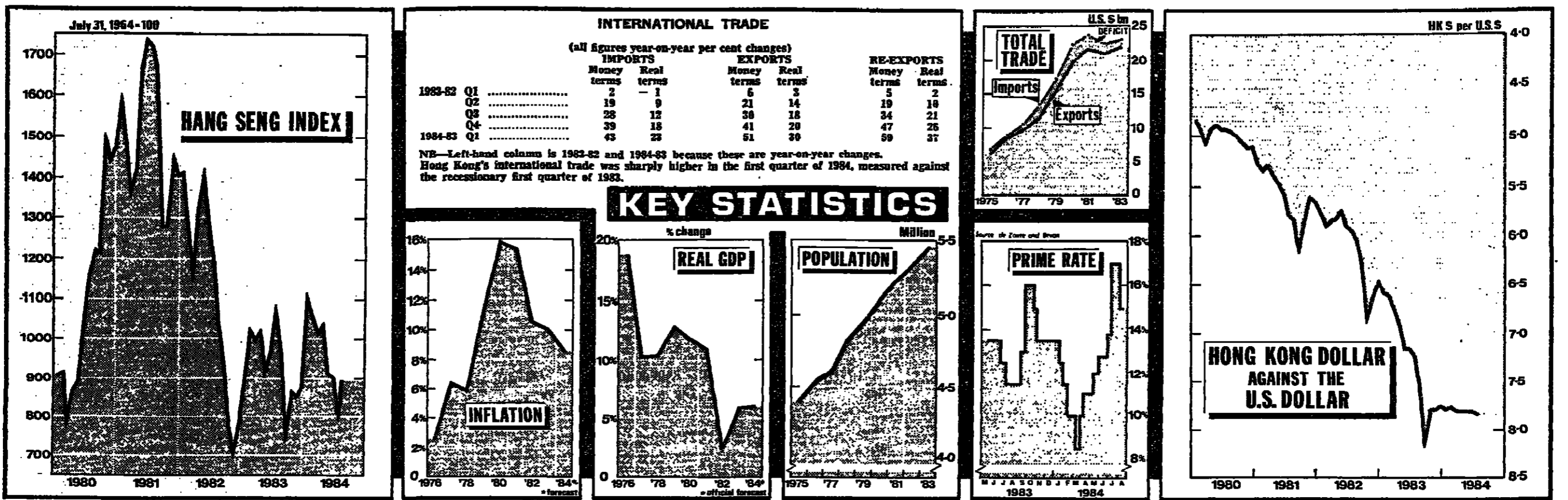


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HONG KONG 5



Plunge in land revenues gives Sir John a hard start

UNIQUELY AMONG world finance ministers, Sir John Brembridge, Financial Secretary of Hong Kong, writes budgets which make entertaining reading.

They are spiced variously with quotations from Trollope, pearls of farside wisdom, and sudden turns of purple phrase—"debt without discipline has savaged them"—which sound best when read in the full and slightly frisky voice which Sir John reserves for his annual budget delivery in the legislative council chamber.

Sir John has now presented three budgets for Hong Kong, time enough for him to put his own stamp on the economy stewardship for the previous decade by Sir Philip Haddon-Cave, now Chief Secretary. Hong Kong's budgets have become more deferential to social forces, less to economic ones.

The succession was unfortunately timed. Sir John took over as Financial Secretary just when Hong Kong's property market peaked, world recession at last caught up with the territory's exporters, and political



Robert Cottrell reports on the major underlying trends

worries boiled over into the financial markets.

Sir John found himself reporting a budget deficit of HK\$3.5bn for the 1982-83 financial year, the territory's first since 1974-75. In 1983-84, a HK\$3.2bn deficit followed, despite sharp increases in indirect taxation. A shortfall of HK\$2.1bn is predicted for the current year, probably with at least one more to follow.

Sir John's main problem was that land revenues had swelled to over one-third of government revenues in 1980-81, and then evaporated with the bursting of the local property market "bubble." In 1982-83, Sir John budgeted for HK\$2.5bn of land revenues. In 1983-84, he actually raised HK\$1.6bn. The Government, in effect, suffered a 25 per cent revenue cut.

Direct taxes

To bring the books back into balance, public sector growth has been brought in line with that of the economy as a whole. Government consolidated expenditure is estimated at 19.4 per cent of Gross Domestic Product in the 1983-84 financial year, and forecast at 18.3 per cent in the current year.

Civil service jobs have been left unfilled, real public sector

wages have been held down. The largest new capital project under study, a replacement international airport, has been scrapped as unaffordable.

More controversially, Sir John also this year raised Hong Kong's direct taxes, including the first increase in salaries tax for 18 years. The standard rate rose from 15 to 17 per cent, while corporate profits tax rate was increased from 16.5 to 18.5 per cent.

It was as much a social as an economic decision. The yield from the direct tax increase this year is estimated at HK\$900m. The Government could as easily have raised the money from a larger long-term bond issue, of say HK\$2bn instead of the HK\$1bn actually issued.

Sir John has gambled that the comfort given to Hong Kong's rich will outweigh any alienation of the territory's free-wheeling businessmen.

He is probably on safe ground in respect of salary tax, since though Hong Kong's higher rate excites grumbles, it is still low and simple by world standards. In the realm of corporate

profits, however, Hong Kong is not such a bargain. The statutory rate must be paid in full every year. There are none of the tax holidays or special incentives which businessmen can pick up by the bagful in many Asian countries.

Fortunately for Hong Kong's manufacturing sector, higher taxes are a relatively small cloud in an otherwise blue sky. After a recessionary 1982, exports rebounded in the second quarter of 1983, and continued to accelerate into the current year.

First half exports this year were 30 per cent higher in real, inflation-adjusted terms than in the first half of 1983. Re-exports grew by almost 40 per cent and imports by about 30 per cent, again in real terms.

Retained imports of raw materials and semi-manufactured goods were growing steadily in the first quarter, by 30 per cent in real terms, while retained imports of capital goods grew 14 per cent, reflecting investment by local firms in plant and stocks in anticipation of continued strong economic

activity. This is understood to have continued into the second quarter.

Corporate profits growth among manufacturers was strong enough to make industrial stocks the "glamour" sector of the stock market in 1983. A succession of small electronics manufacturers boosted their shares on local stock markets, attracting multiple oversubscriptions from investors impressed by the apparent cheapness of offer prices when measured against the high forecasts made for 1983 profits.

Hong Kong's larger and more traditional textile sector has also prospered. Winsor Industrial, the territory's largest garment manufacturer, recently reported net profits of HK\$27.8m for the year to March 31, 1984, compared with just HK\$22.8m for the prior accounting year.

Garment manufacturers are likely to report slower profit growth in the current year, however, partly because restocking in the U.S. has peaked, partly because Hong Kong was fully utilizing in 1983 the quotas for popular garments allocated to

it under the multi-fibre arrangement, which governs world garment and textile trade.

Economic prosperity in Hong Kong's best counterbalance to political uncertainty. The implications of reversion to China in 1997 permeate the territory's economic life, as well as its social and political life. The twin threats are an exodus of capital and of talent eroding Hong Kong's position as a high-wage, high-productivity society.

Exports

In the short-term, the economic impact of "1997" has been most apparent in Hong Kong's financial markets—stock and foreign exchange. Since mid-1982, the stock market's major movements have been almost all politically-inspired. The Hong Kong dollar, meanwhile, weakened frighteningly last year until the Government moved to "peg" its value to the U.S. dollar in October.

The HK\$7.80/US\$ "peg" applies only to banknotes, not bank deposits, and so depends for its stability upon the confidence of the banking sector and general public. A crisis of confidence would tend to generate a "flight into cash" analogous to a run on an individual bank. So far, the system has held, with the exception of a panicky day in July when a large late afternoon seller drove the rate downward to HK\$5/U.S.\$.

With the exchange value of the Hong Kong dollar "pegged," the monetary system relies on interest rates to bring supply and demand into balance—and, when necessary, as the official tool for scaring out speculators.

As a result, Hong Kong's prime rate—fixed by a quasi-official cartel of banks—has moved frequently and erratically since last October. It has just been trimmed to 15 per cent after spending a month at an historically high 17 per cent, to which it was lifted when the exchange rate faltered last month. Interbank interest rates have been more volatile still, having varied over the last six months between zero and 41 per cent for overnight money.



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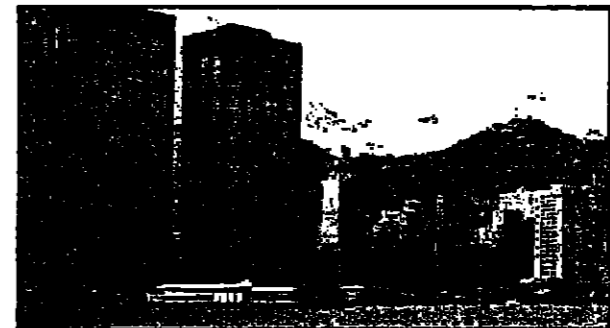


If you're like most business people you already know that Hong Kong is one of the world's leading exporters. What you may not know is that this small, dynamic Territory is also a major importer.

In 1983, Hong Kong imported over £15,900 million worth of foreign goods and services.

Britain's share of this rapidly expanding market was almost £700 million. In the first four months of 1984 Hong Kong imports from the U.K. reached an all-time high of £256 million, an 18% increase on the same period last year.

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Peking's investment doubles in two years

PEKING'S investments in Hong Kong have now reached US\$4bn, China's leading capitalist resident in the territory, Wang Guangying, recently estimated. This is double the figure for 1982, and reveals the extent to which Peking enterprises and banks have plunged into the whirl of business since strong man Deng Xiaoping's "open door" policy took off in the early 80s.



The Republic's involvement in HK business life is growing rapidly, reports Colina MacDougall

China now invests through 50 representative and trade offices, Mr Wang said, and is involved in around 300 projects. But Mr Wang's own activities have raised a few eyebrows. The curious exit of his company Ever Bright Industries from its property deal with International City Holdings (ICH) came on top of the Conic affair, where he helped to put together investment for that questionable company.

Chinese officials have said Peking would make more use of the Hong Kong stock market to raise money for modernisation, but Wang's activities have evoked a degree of wariness. The history of the ICH deal with Ever Bright is instructive. In January, the official Chinese news agency Xinhua announced that Ever Bright (financed by Peking, though the precise sources of funds is unknown) had made a deal to buy eight apartment blocks (as yet unbuilt) in the City Garden development at a price of almost HK\$1bn. Few details were published, but Wang constantly referred to the deal as a purchase and "Ever Bright's biggest investment." A 5 per cent deposit was paid in February. The stock market took heart from Peking's apparent faith in the future of Hong Kong and property share prices rose.

But in June, Ever Bright cancelled the deal and a previously unpublished clause in the agreement allowed it to reclaim its deposit, plus accumulated interest. At first the government's Securities Commission said it would set up an investigation, but later this was called off.

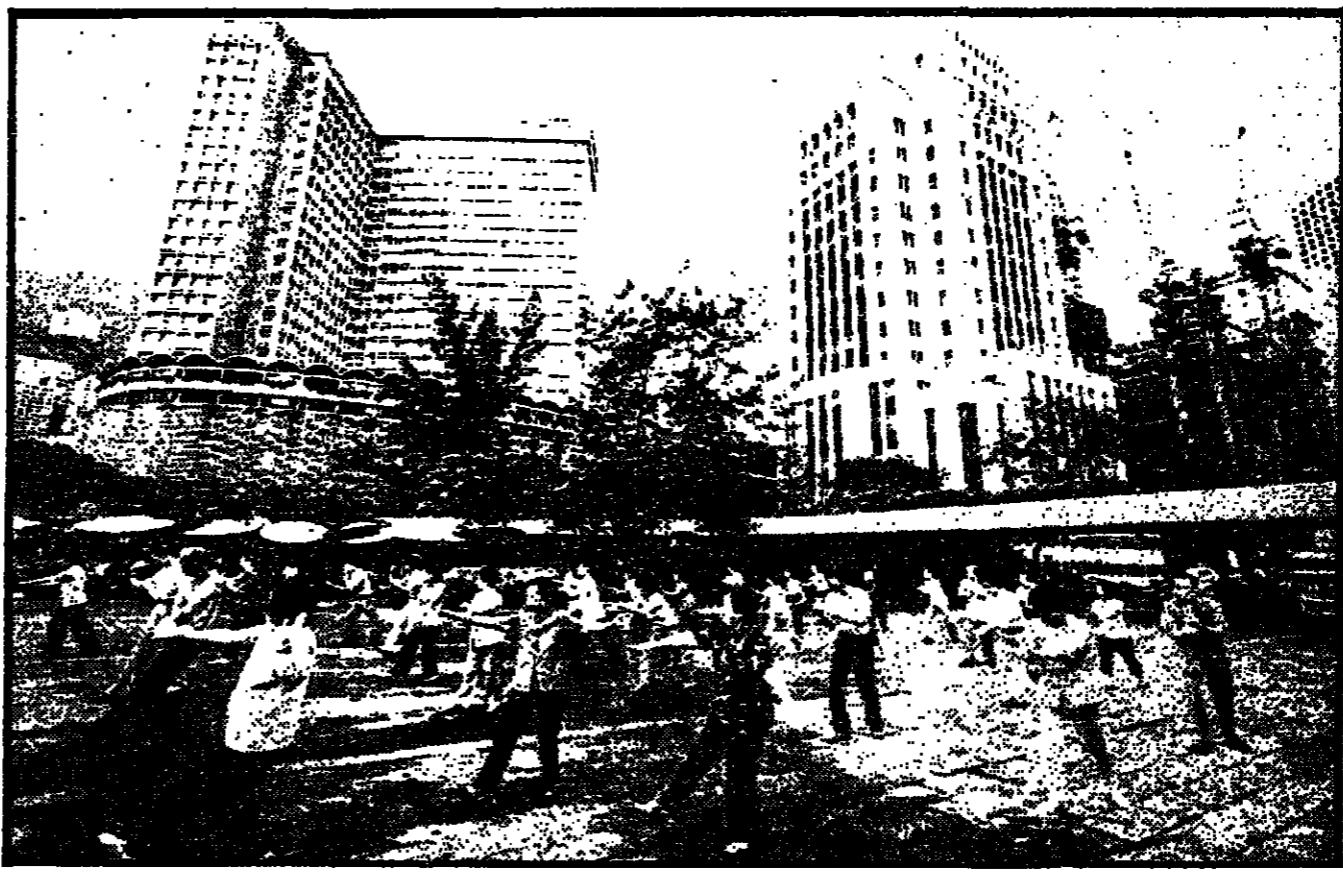
The final impression left by the affair was that Wang embarked on the deal to talk up the Hong Kong property market, that in June Peking got cold feet, and that, despite possible infringements of the Securities Ordinance, the Hong Kong Government decided not to

On the brighter side, these adventures took place against what seems to be a steady increase in China's bread and butter investments. Although Hong Kong's property and stock markets have had the litters, its manufacturing and foreign trade sectors have recovered.

The Bank of China and the 12 sister (associated communist) banks now maintain an arguably wider influence than the giant Hongkong Bank. The group controls perhaps as much as 40 per cent of the financial market in Hong Kong. The banks' leading has cut a much higher profile in recent years, sharing in syndicated loans in a way unthinkable before Deng Xiaoping's rise to eminence.

Some of the sister banks were overexposed in the property bubble collapse which began in 1981, but appear to have been bailed out with funds from China. This has not discouraged new ventures; two, Sin Hua and Po Sang in January set up a stockbroking business, Chung Mao Securities, to deal on two of Hong Kong's exchanges.

Most of this is handled in Hong Kong by Peking-oriented traders, insurance companies (of which there are five) marketing organisations, and shipping companies. A corresponding rake off will have gone to them. The biggest of these is probably China Resources, which runs three oil storage depots and has recently moved into a glossy new headquarters in Wanchai. It also plans to open a chain of supermarkets in the territory. It is a safe assumption that all these organisations hope that Hong Kong will continue to thrive.



Adopting a technique as old as Confucius, Hong Kong Chinese perform early morning exercises in the shadow of the Bank of China (right)

The thirteen secretive sisters

HONG KONG'S biggest group of banks, led by the huge Hongkong and Shanghai Banking Corporation, is known to almost everyone in the Colony—and to many far beyond. Its second largest group of banks—a loose federation rather than a centrally directed, single entity—is still remarkably little known, even in the local banking community.

One foreign bank's general manager admits that "our paths don't cross very often," while a second says "they are still extremely secretive." They are talking about the "13 sisters" or national banks, led by the Bank of China, all of them incorporated in the People's Republic. The Bank of China itself is perhaps the most visible to the outside commercial world, as Peking's main foreign trading and investment bank—effectively the overseas arm of the People's Bank of China, the country's central bank.

Within the local Hong Kong market, however, the place goes to the Sin Hua Trust, Savings and Commercial Bank.

Sin Hua now boasts no fewer than 420,000 accounts out of a population of only 5m. Even allowing for the fact that many Hong Kong people maintain accounts at several banks, its 98 branches plainly give it a large deposit base. Two more branches were due to open before the end of this month and a further 10 within the next two years.

China's banks

The national banks' expansion into almost every area of banking in Hong Kong is a relatively recent phenomenon, dating back to 1979, when the Peking Government began to encourage them to take part in the financial life of the People's Republic and in channelling investment funds to China.

Inside Sin Hua's new U.S.\$20m Hong Kong head office, there is evident bustle in the banking hall. The bill trading and money market desks, even the China trading division and the well-equipped foreign exchange desk.

Women employees, in the uniform common all over Asia, are crisply turned out in striped blouses and blue skirts.

Once a week, top executives of the 13 sisters meet to discuss broad policy outlines, though in business terms each is an entity separate from the others. There is little central direction of their detailed lending or funding.

A great part of the banks' business consists of financing—often in conjunction with one of the smaller Hong Kong Chinese banks—trade deals and joint ventures involving Chinese enterprises. Indeed, it is probably difficult for such deals to go ahead without their assistance.

The national banks did not escape entanglement with the Hong Kong property crash, and in common with nearly every other bank in the Colony they are thought still to have their share of problem loans on the books.

However, Mr Tsao singles out mortgage lending for lower-priced residential property (flats in the HK\$200,000-HK\$500,000 price bracket) as one of the most active areas of Sin Hua's business, in part because the general decline in property values has brought thousands of middle-class first-time buyers into the market.

For such customers, as for the national banks themselves, 1987 is a date of no great consequence; they are not likely to leave. Far from seeing the expiry of the British lease as any deadline, Sin Hua and its sister banks believe they have much to learn and expect further to internationalise their business.

'Big Boss' keeps everyone guessing

Ever Bright Industries

IN ONLY one year, the chairman of the Ever Bright Industrial Company, self-styled "red capitalist" Wang Guangying, has earned himself the nickname "Big Boss" among many local Chinese in Hong Kong.

For one thing, the 65-year-old's avuncular and expansive style of doing business contrasts sharply with that of the dour and inaccessible men of the Bank of China and its trading arm, China Resources.

For another, Ever Bright's headlong series of commitments to large projects in Hong Kong, China and Macau gives the impression that Ever Bright, China's first "private company" in Hong Kong, has large reserves of capital. Mr Wang has nevertheless declined to state the source or extent of these funds.

After recent developments, however, Mr Wang's nickname might well be seen by many in the British territory as "Big Wind."

On June 28, he told selected members of the local left-wing press that one of Ever Bright's

much-touted property deals would be cancelled. The deal had been promoted by Mr Wang on the local tuncen circuit as an example of Ever Bright's faith in Hong Kong's political and commercial future.

It involved a HK\$1bn residential development jointly planned with property magnate Li Ka-shing, chairman of Cheung Kong Holdings and its subsidiary, International City Holdings.

Shortly after the announcement, a company spokesman said a second well-publicised negotiation between Ever Bright and local businessmen Henry Fok and Stanley Ho to build a resort complex worth about HK\$300m in Macau was also off the drawing boards.

ject would cost the communists capitalists nothing. A six-month option never before disclosed to the shareholders of his company, allowed Ever Bright and ICH to cancel without loss of deposits or the accumulated interest. Plans announced by the Office of the Commission for Securities to look into the matter were in explicitly dropped, prompting even more curiosity.

Mr Wang seems to have lost none of his original bonhomie despite the shift in his company's activities.

Educated by Catholics in Peking, Mr Wang taught chemistry in Tianjin in the early 1940s and subsequently built a chemicals factory there.

Surviving the factory in the 1950s to the five-year-old communist government, he became an active member of the National Congress.

If his star also rose because he was the brother-in-law of the Chinese President Liu Shaoqi, it inevitably fell with Liu's during the Cultural Revolution. From 1968 to 1976, Mr Wang was imprisoned, spending part of that time in isolation in the famous Qin Prison.

Apparently he and his immediate family's rehabilitation is now complete. Three of his four children live in China, but one daughter is married to a business student at Wharton College in the U.S.

It could be surmised that permission to visit Hong Kong and Macau in 1983 was final proof

of his good standing with the Government. By his own account, he spent days at the Furama Hotel in Hong Kong, receiving old friends and making important new business contacts.

The enterprising Mr Wang wrote up his impressions in a proposal to Premier Zhao Ziyang who reportedly approved the idea of a private communist company in Hong Kong as a demonstration of China's faith in the "two systems, one country" concept for Hong Kong after 1997.

Spectacular

Ever Bright opened for business a year ago. Despite the recent setbacks it is to go ahead with a HK\$1.18bn sugar refinery along the Pearl River in the Zhu Hai special economic zone and is continuing with its more mundane business of importing and exporting machinery and technology to China.

In the wake of the ICH cancellation, Mr Wang has hinted that more spectacular projects will follow.

Astute businessman or naive new comer, Mr Wang has perplexed the financial community in Hong Kong, as accustomed as it is to unusual species of entrepreneur. "I'm here to give oxygen to Hong Kong," he said once in a speech, but now locals are trying to measure just how much oxygen, and how much hot air.

Curiosity

Previously, it had seemed Mr Wang promoted his projects to the Hong Kong public as a sign of his faith in the colony's future. Pulling out of two of the most significant of these proposals without warning seemed a funny way to do business.

Eyebrows were also raised this month, when it became clear that Ever Bright's retreat from the ICH city garden pro-

Trusted

The idea for Chung Mao Securities was suggested at the end of last year when the Po Sang Bank introduced Mr Chung, who is a broker and gold trader and one of its long term clients, to Sin Hua.

"The choice had nothing to do with his political affiliations. He was simply a merchant," says Mr Tsao, but it is obvious that Mr Chung, who was born in Guangdong Province, and has been dealing with the Communist banks for over a decade, is a trusted associate. The deputy manager of Chung Mao is Mr See Man Hon, a relatively young Hong Kong banker recruited from Sin Hua.

Mr Chung sold his seat on the Kam Ngan stock exchange to the new joint venture, which also obtained a seat on the Far East stock exchange. According to Mr See, more than 1,000 of the bank's clients are customers of Chung Mao. "We are trading mostly for individuals at the moment, but we

Chung Mao Securities

hope to trade on behalf of more corporate clients as well."

Although Chung Mao has not yet contacted potential Chinese firms who might be listed on the Hong Kong market, Mr Tsao says the most likely institutions would be the largest factories, mines and railroads on the mainland.

The Chinese have been quietly experimenting with share trading for over a year. The first share offer to foreign investors in 34 years was privately issued last year by San He Holdings Ltd, formed by four Chinese corporations in the Shenzhen economic zone.

Hardly an IBM of China, San He said it planned to use the 50 million yuan raised from the issue of 1,000 shares to build a bakery and factories producing frozen food, preserved fruits and syrup.

Two other Chinese concerns, Yinhu Tourist Centre Ltd and Baoan County Joint Investment Corporation, are also planning to raise funds with stock issues.

However, the idea of Chinese listings on the Hong Kong market is a more complicated matter. "We will not seek any modifications of the local regulations. Our issues must be approved by the Hong Kong exchange like any others," says Mr Tsao.

He adds, however, that foreign investors would be unlikely to attend annual general meetings of remote Chinese corporations.

Should Deng Xiaoping's current economic policies hold, the Chinese may one day open their own stock exchanges. The most likely locations are the 14 coastal cities, including Hainan Island, earmarked for development into special economic zones, and Peking, Shanghai, Tianjin, and Canton.

Fears among Hong Kong brokers that Chinese financiers are thin on the ground, and inexperienced at that, were recently addressed by the director of China's Hong Kong and Macau Affairs, Mr Ji

Dinah Lee

Learning to do business the capitalist way

Learning to do business the capitalist way

LAST FEBRUARY, the first China-affiliated stockbroking firm opened its doors for business in Hong Kong, when Peking sent a logical first step toward building its own national share market.

Chung Mao Securities is a joint venture, owned 45 per cent by Sin Hua Trust, the savings and commercial bank, 40 per cent by Po Sang bank, and 15 per cent by private Hong Kong broker, Mr K. W. Chung.

"In the past, socialist Chinese had no concept of dealing in shares, but because Hong Kong is a capitalist society we must learn how to do business in a capitalist fashion, and that includes share trading," says Mr Nelson Tsao, a director of both Chung Mao and Sin Hua.

He says that the Hong Kong stock market is an obvious place to raise funds for the development of China's economy, and that China's eventual goal is to gradually reach the point where Chinese concerns can be listed on the planned unified stock exchange in Hong Kong.

Mr Tsao predicts this could happen within two or three years. "The sooner, the better."

Pengfei. He told a delegation of Hong Kong stockbrokers that young Peking officials in the Chinese International Trust and Investment Corporation were well-informed about security transactions.

"If you think Chinese are naive about the stock market, you're wrong," concurred Mr Chung in an interview after he had returned as a member of that delegation.

"Shanghai had brokers before the war and they still watch the Hong Kong market closely. Some Chinese on the mainland have children studying in Hong Kong, and from them they receive a lot of information about different equities."

The Hong Kong delegation had requested of Mr Ji that under a post-1997 administration, Hong Kong's listing market, securities legislation, and free enterprise nature be preserved. They also suggested big Chinese and joint venture enterprises go public on Hong Kong's exchange. Mr Ji said a special Chinese committee was examining these questions.

Adrian Dicks

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HONG KONG 9

Retail banks are offering a growing range of services and products

Customers show their confidence

THE HONG KONG banking business presents a paradox this year. At the wholesale level, banks have been feeling the effects of the successive blows to local confidence...

matic teller machine systems now operating in Hong Kong, and to the investment required to press further towards electronic banking.

Hang Seng Bank, the 61 per cent owned subsidiary of Hongkong and Shanghai Banking Corporation, is the largest single institution which is predominantly active in the retail sector...



The financial sector has continued its rapid development in spite of uncertainties over the future

over-banked—that is to say, there are more bank accounts than people, in a market where banks traditionally do not charge private customers...

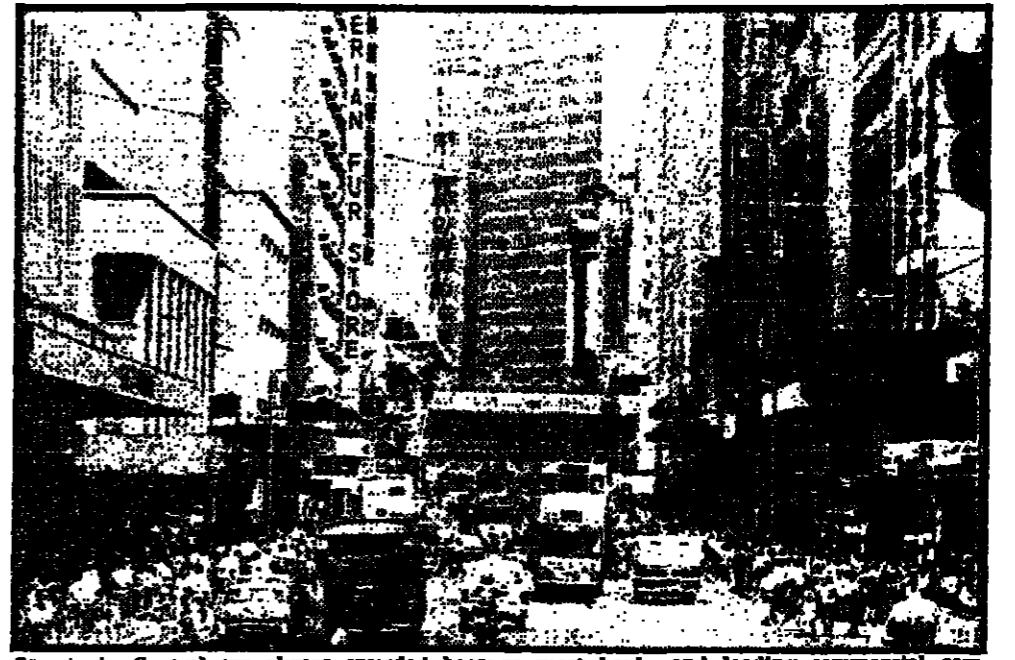
No doubt political prudence has also had a part to play in explaining the success of the national banks in increasing their share of the market for private deposits in recent years.

Thanks to the interest rate cartel that determines how much interest a bank may offer a depositor, the banks with the widest catchment areas for private deposits have the greatest advantage...

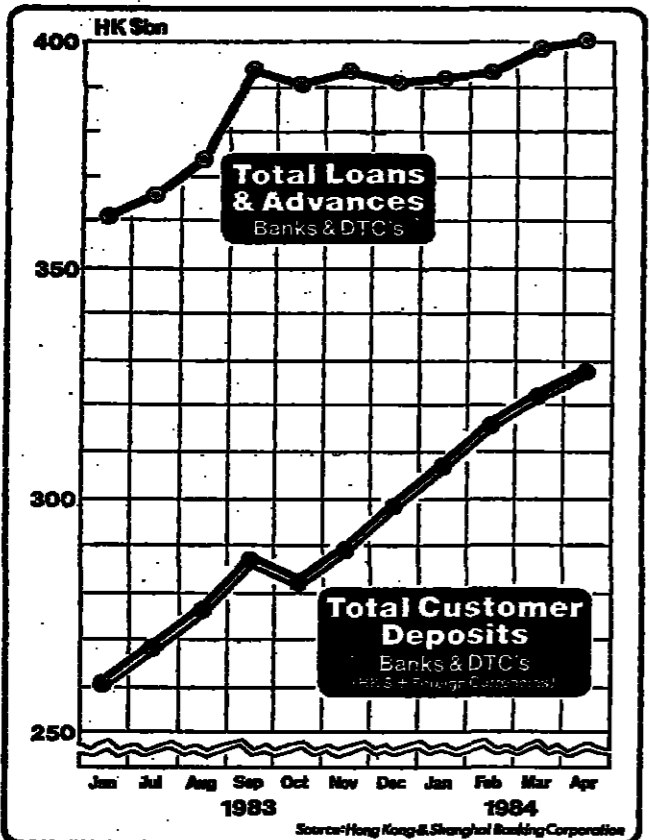
In a period where the cost of overnight funds has several times touched 40 per cent in the local money market, this immense advantage has been further consolidated.

To help matters further, from the banks' point of view, in mid-1983 the Hong Kong Government imposed high thresholds on the minimum sums allowed to be taken as deposits by registered deposit taking companies...

Statistics suggest that in a technical sense, Hong Kong is



Streets in Central are always crowded because most banks and leading commercial companies have main offices in the district. Above: a typical scene in Des Voeux Road Central



have fallen to the level where large numbers of first-time buyers can afford to enter the market, many of whom have no prospects of being able to emigrate from the Colony even if they wished to.

Other powerful institutions in the retail sector include the Standard Chartered Bank group (which shares with the Hongkong Bank the right to issue local banknotes), as well as a number of smaller banks largely controlled by Hong Kong Chinese shareholders.

Prices of residential property

Association of Banks to let its members decide their own prime lending rates.

Defenders of the cartel can point out that, since what is widely perceived as the "pegging" of the local currency to the U.S. dollar, local interest rates have taken the full strain of highly volatile conditions.

A second reason why the authorities are likely to maintain the banks' cartel in being is their concern that an interest rate war among institutions for deposits would quickly drive some of the smaller banks to the wall.

There have been two substantial bank casualties within the past year. In September last year Hang Lung Bank, a prominent locally owned bank with deposits of HK\$4.5bn,

announced that it could not meet its liabilities, and in a move almost without precedent in the Colony's history, the Hong Kong Government took it over.

A few days later Sun Hung Kai Bank, an arm of the securities group, influenced by rumours that it was in difficulties, was given a HK\$200m support package and effectively taken over by Merrill Lynch of the U.S. and the French Banque Paribas group.

Although the circumstances of the two cases differed widely, the Hong Kong authorities appear predictably reluctant to engage in experiments that could in any way unnecessarily dent confidence, and they are under some pressure to exercise more effective prudential supervision over banks and DTCs.

Those with longer memories can point out that it is less than 30 years since the Hang Seng Bank itself suffered a run that led to its takeover by the Hongkong Bank.

Adrian Dicks

China is seen as offering an area of expansion

Chastened but far from ready to quit

Corporate banking

"I SPEND far too much of my time on closing-up operations; I should think every banker here would say the same."

This pithy summary of the current climate in Hong Kong, expressed by the local general manager of a leading international bank, is a sobering reminder of how drastically the horizons of the banking community in the Colony have been refocused in the last three years.

Internationally famous institutions, lured to Hong Kong by the seemingly effortless profitability of lending to local property companies, or to the governments of what was then the world's most rapidly growing region, could be forgiven for thinking how they had plunged headlong into a very shallow pool.

Nor were they alone; few of the local banks escaped completely unscathed from the collapse of the property market, while the largest of them, the Hongkong and Shanghai Banking Corporation, was owed about HK\$1.5bn by the Carrizien property group when it collapsed.

Mr John Mansfield, a director of Woodley, the merchant banking arm of the Hongkong Bank group, plays down, by comparison, the more recent effects of the crisis surrounding the Colony's political future. "Much of what's hit Hong Kong would have hit it anyway. The property collapse is easily the worst thing, especially for Hong Kong's reputation. That is going to take many years to work through."

Yet while they are chastened by the disasters of the last few years, Hong Kong's bankers are by no means ready to quit. For those with long-established reputations, large branch networks and hence a large Hong Kong dollar deposit base, retail banking has been an extremely profitable business in the last year or two, thanks to broad economic recovery, and has shown little sign of suffering from political uncertainties.

Those banks without the deposit base needed to thrive in the retail market, however, have been forced to look to other areas of activity. For the merchant banks (whose commitments in direct lending to the property sector were relatively small) this has meant turning back to fund management and securities underwriting as well as helping to develop such important new areas as the market for Hong Kong dollar certificates of deposit and for locally issued commercial paper.

For many bankers, the obvious attraction has been Hong Kong's flourishing manufacturing sector, still enjoying a solid export boom on the back

of the strong U.S. economic recovery. Last year, according to some analysts, there was an overall drop in net capital formation in Hong Kong, suggesting that statistically at least, the financial needs of the manufacturing sector either were relatively modest compared to the overall shrinkage of lending, or were met out of retained earnings or through the use of idle capacity.

With a situation in which there appears to be more lenders than borrowers, banks are being driven to compete for the business of the corporate sector by outdoing one another in the terms and services they can offer.

They are also well aware that the better-known names in manufacturing industry are very favourably placed to raise equity finance through public share issues, as several were able to do earlier this year before the stock market declined to the point where new issues could not be attempted.

The property collapse is easily the worst thing to have happened...

Bankers insist, however, that they are scrutinising potential corporate customers closely, and they are only too well aware that some are companies which have mushroomed, in typical Hong Kong style, from very small beginnings.

Mr Peter Dodd, head of Barclays Bank's operations in the Colony, says he looks above all at the quality of management. "You would think twice about someone who has changed from food products to electronics overnight."

He also points out the vulnerability of the electronics industry to the vagaries of the market, especially in the U.S., where there has been mounting evidence in recent months of a slowing down in personal computer sales — one of the main end-user industries of Hong Kong's output.

If any reminder were needed of the pitfalls of corporate lending, it has been provided in recent months by the difficulties of Conic Investments, Hong Kong's biggest electronics company, which in June announced losses for 1983, after extraordinary items, of HK\$374m.

The company attributed its losses to debts owed by Conic Holdings, a private concern controlled by Conic's chairman and founder, Mr Alex Au, whose whereabouts were said to be unknown.

The chief novelty in the situation was that the main losses to debts owed by Conic mainland Chinese interests in the shape of China Resources, the country's main state trading organisation in Hong Kong, and the Bank of China, which between them came to Conic's

rescue last January with a HK\$187m cash injection and acquired a 35 per cent stake.

Although all bankers are taking no pleasure in the Chinese authorities' discomfiture over the Conic affair, there is a widespread view that it could be a necessary part of their education in the ways of capitalist business (albeit the less acceptable face) as the long, difficult process of meshing Hong Kong more closely into China's economy gets under way. There is also general approval of the fact that the Chinese shareholders in Conic "took it on the chin."

Business with China is the remaining major area in which Hong Kong banks can expect to expand in the future. Here, too, success is likely to go to those institutions which have put in years of scarcely visible work on establishing contacts and building firm foundations. A handful of banks, including the Hongkong Bank and the Chartered Bank, have been able to maintain branches in China continuously, even though little business was done during the Cultural Revolution. Many more have put their efforts into representative offices in Beijing and other cities.

Much of the "China business" done by Hong Kong banks is at a relatively routine level of trade financing, but gradually relations are also being built up with corporations and other authorities in China which Hong Kong bankers hope to gear into long-term borrowers. Increasingly, such business is done in partnership with Chinese banks.

While such borrowings remain on a fairly modest scale, China as a whole is considered by foreign banks to be greatly "under-borrowed" — there are one or two large projects on the horizon, such as the Daya Bay power station scheme for which bankers are already trying to position themselves in hopes of gaining a leading role in arranging long-term U.S. dollar financing.

For the time being, lending from Hong Kong to other sovereign borrowers in the Pacific region seems likely to remain quiet. The Philippines' debt crisis remains a serious worry, while the countries to which bankers would most like to lend, such as Indonesia and Malaysia, appear in no immediate mood to borrow.

Yet Hong Kong remains important to banks as a regional centre in other ways — and management, shipping finance, aircraft leasing and foreign exchange — that are relatively insulated from its own domestic preoccupations. It thrives because none of the suggested alternative locations meets all the necessary conditions — Singapore, Tokyo or Bangkok, for example. Bankers visibily enjoy living and doing business in Hong Kong; they seem in no mood to move just yet.

A. D.

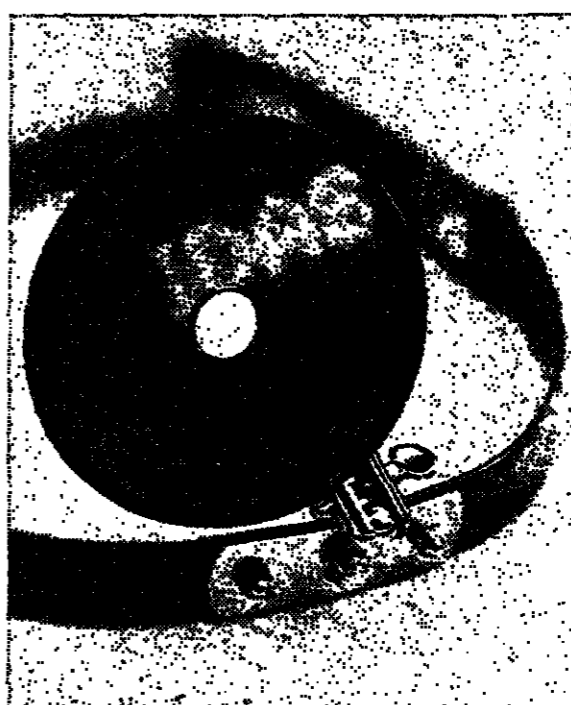
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HONG KONG 10

Share prices have recently recovered but sentiment is likely to remain volatile. Christopher Wood reports

Political uncertainty exacts a heavy toll

Stock market

POLITICAL uncertainty has made Hong Kong a perilous market for any investor in the past 12 months. That does not mean, however, that there have not been opportunities for the nimble trader to make money out of the volatility inherent in such a market.

Twice the Hang Seng index has been poised to break convincingly through the 1,100 barrier only to be brought down, often with alarmingly sharp falls, by renewed bouts of politically induced panic.

The first was the summer of 1983 before a series of hostile statements from Peking on the course of the Sino-British negotiations sent the index down to 1,130 level.

Profiting set in after the index touched 1,170 in March, but it took an announcement by Jardine Matheson, the colony's oldest "hong," that it was mov-

ing its legal domicile to Bermuda to seriously undermine settlement. The Hang Seng index slumped to the 900 level.

After a short rally, the announcement by Sir Geoffrey Howe, Britain's Foreign Secretary, on April 20, that Britain would have no say in the administration of Hong Kong after China regained full sovereignty in 1997, sent share prices into reverse once again.



The Hong Kong stock exchange: volatility has produced both dangers and rewards.

concerns, the most notable being Hong Kong Land. What then is the basic level at which to adopt a contrary view and buy back into Hong Kong?

For those with a gambling streak 700 seems the best target as the market twice rallied from that level, first after the disastrous Thatcher visit in September 1982 and then again last autumn following the pegging of the currency.

Adrian Dicks looks at the fortunes of two merchant banks and Christopher Wood profiles a leading broker

Pioneer in the Pacific

"HONG KONG is a place where you can make extra-ordinary profits," says Alan Smith. The merchant bank he heads, Jardine Fleming, is the Colony's oldest and in 1983 was its most profitable.

Within a year or two, all that had changed. The young Jardine Fleming found itself thrust into a lively mergers and acquisitions business, starting with the 1972 battle in which Hongkong Land acquired Dairy Farm.

Finance field. A British solicitor by training, he had first come to the Colony in 1970 to teach company and commercial law at Hong Kong University after a spell at the University of East Africa in Nairobi.

He is still an honorary lecturer at Hong Kong University, a member of the editorial board of the Hong Kong Law Journal and an occasional author of scholarly papers on legal matters bearing on China.



Mr Alan Smith offer now were developed to meet special demands from clients.

Faith in future

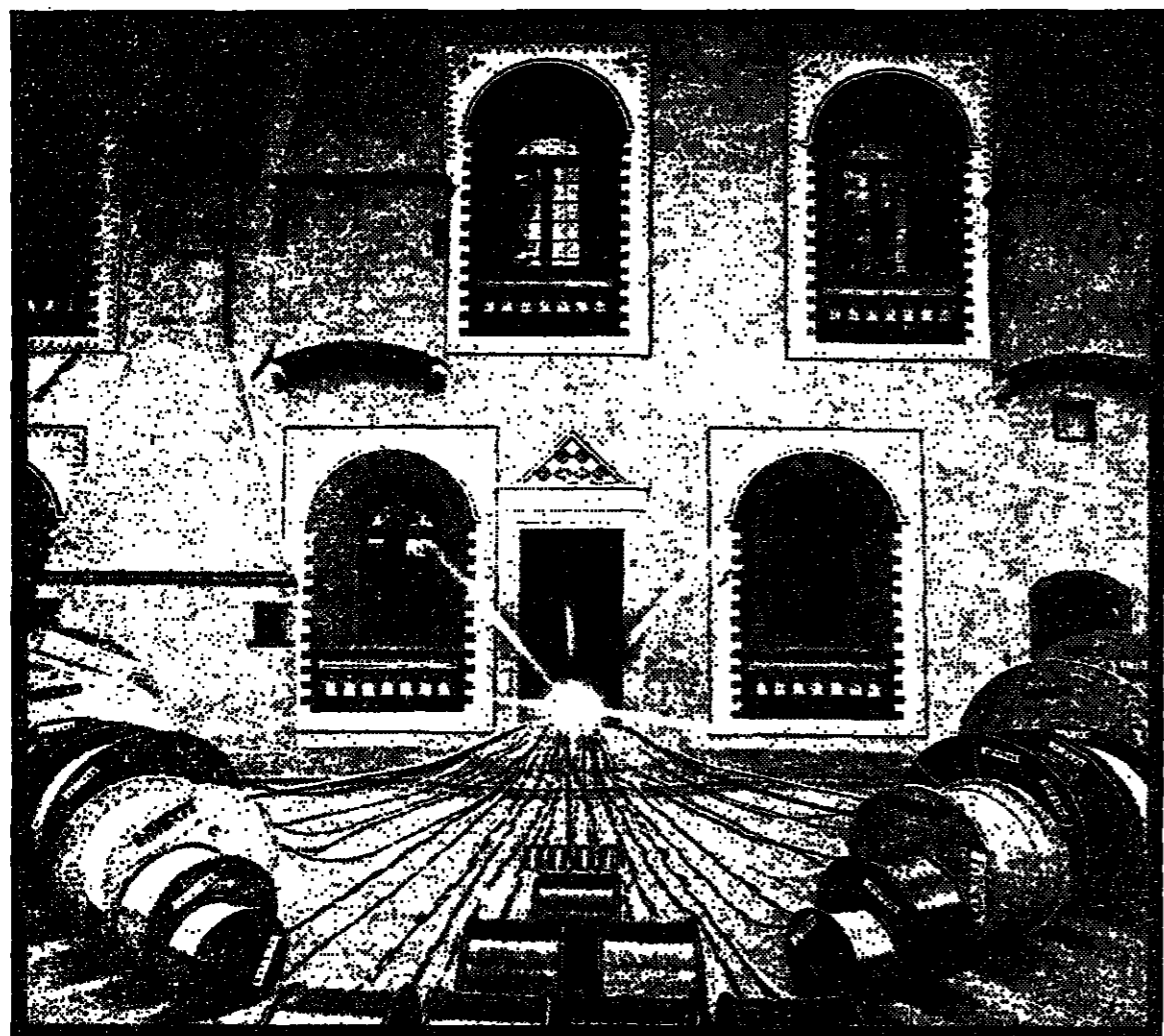
"STANDING BACK, the figures are good," Mr Hugh Bolland, newly appointed managing director of Schroders & Chartered, the Hong Kong merchant bank, is ready to stand up and be counted among the optimists of the Hong Kong financial community.

The typical issue has been on behalf of a local manufacturing company, riding high on the export boom, which wants both to strengthen its equity base and in order to expand, to arrange for the owners to take a portion of their investment out of the business in cash.



Mr Hugh Bolland term debt markets in Hong Kong, the Hong Kong dollar-denominated certificate of deposit market and the commercial paper market. Both are growing relatively slowly, and for the time being are being effectively only to the colony's top names.

The bank that animates Italy's most progressive region



A selection of Pirelli cables against the backdrop of the Renaissance Palace in the company's grounds.

Pirelli is famous all over the world for tyres, cables—and calendars. It is famous in Milan for 'La Bicocca' the Renaissance Palace at the heart of their great industrial complex in Lombardy.

regions, its most prosperous, accounting for one third of the country's industrial output. Permeating the region with financial support is Cariplo, the bank that numbers most of these dynamic businesses as customers—including Pirelli.

CARIPLO

Encouraging enterprise internationally

Foreigner with local appeal

AT THE age of 39, Philip Tose, the long-time head of broker Vickers de Costa in Hong Kong, can look back on a remarkably successful career in this most individual of markets.



Mr Philip Tose with the HK Chinese business community — for information as much as commissions — and that manning dealing desks with expatriates in what was fundamentally a Cantonese market were an unnecessary luxury.

the risks inherent in the Hong Kong market. Disaster nearly struck because of Vickers' touting of the ill-fated Carrion Investment. A bullish research book bearing the unfortunate title Carrion Revisited was put out by the broker days before the Carrion first announced liquidity problems.



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HONG KONG 11

The groundwork for the launch of trading is expected to be completed by October 1

Exchange aims for world class

Financial futures

DOES HONG KONG need a financial futures market, and if it does, can a viable one now be established in the same time zone as the budding Singapore International Monetary Exchange?

The Hong Kong business establishment, though initially sceptical, seems prepared to put its weight behind the venture. Major local and foreign banks are expected to buy seats, as well as member firms of the Hong Kong Commodities Exchange, into which the new market will be grafted.

The authorities, for their part, appear satisfied with the proposed prudential and supervisory arrangements while Sir John Brembridge, the Financial Secretary, has applauded the creation of the market as an important addition to Hong Kong's infrastructure as a financial centre and as a reflection of "our basic belief in free enterprise."

Legislation is being prepared and Dr Kim Cham, chairman of the Commodities Exchange and architect of the financial futures proposals, says "we aim to have all the groundwork finished by October 1."

It will then be mainly a matter of getting the timing right for the launch of the first new contract, a stock index futures instrument based on the Hang Seng Index of the Hong Kong stock market.

Since the market may well undergo a period of nervousness before and after publication of the Sino-British agreement laying out details of Hong Kong's future after 1997, which is due in September,

promoters of the financial futures market readily accept that the launch may have to be delayed until early 1985.

By that time, the Singapore market will have started up with its first three contracts, for Eurodollar interest rates, U.S. dollar-yen foreign exchange rates, and gold. Although its opening has been much delayed, and the proposed direct link with trading in identical contracts on the Chicago Mercantile Exchange may not yet be in place, Singapore is confident that this will eventually be a magnet to those futures market operators who want to deal around the clock.

Sinex intends its contracts to be perfectly interchangeable with those of the CME, and indeed the delays to its launch have been caused in part by the process of U.S. regulatory approval.

The Hong Kong market's supporters profess complete unconcern at Singapore's plans, and point to what they believe are fundamental differences between the two markets.

Contracts

In technical terms there will be little exact competition. Hong Kong will continue to offer its present selection of physical commodity futures — gold, sugar and soyabean — as well as financial contracts.

Dr Kim Cham is confident that these will expand from stock index futures based on the Hang Seng Index to include contracts based on a freight index, on Eurodollar and possibly Hong Kong dollar interest rates, and on foreign exchange rates based on both the local and the U.S. dollar.

Among these, only Eurodollar and U.S. dollar/yen contracts would thrust Singapore and



Sir John Brembridge, Financial Secretary: applause for creation of market

Hong Kong into direct competition. The present Hong Kong gold futures contract is little traded, but the Colony can claim the world's third most active gold market, after New York and London. It is based on metal content and weight specifications that are all its own. The Chinese Gold and Silver Exchange Society has been in existence since 1910, and saw a rapid expansion in dealings after restrictions on the physical import and export of the metal were lifted in 1974.

Foreign-owned firms may not become members of the Exchange, though they deal extensively on it indirectly on behalf of investors in other time zones of the world. Access

to London is also provided, mainly through the British bullion houses, by means of the Loco London market, which offers Hong Kong-based investors access to London forward dealings.

Mr Robert Sitt, managing director of Samuel Montagu (Hong Kong), estimates average turnover in the Loco London gold market at 1.5-2m oz a day with dealings on the Exchange at roughly half those levels. In addition to gold, Hong Kong investors also now have access to international silver dealings through the Loco London market.

Gold dealers in Hong Kong see relatively little threat to this flourishing business from Singapore, and they argue that their clients are well served by the present mix of cash and forward dealings, supported by the gold-denominated accounts now available at some Hong Kong banks—a facility that may eventually weaken the fondness of many smaller Chinese investors for taking physical possession of their metal.

The local bullion trade has largely ignored the Hong Kong Commodities Exchange futures contract, arguing that it is less flexible than London forward dealing and that the market lacks liquidity. In the longer term, however, the bullion dealers are among the groups which the financial futures exchange will need to interest in active participation. There has already been active discussion of adding a Kruggerand-based futures contract to the market.

The new exchange will be formed from the basis of the Hong Kong Commodities Exchange's present membership and will use its trading floor. Dr Kim hopes to increase the number of member firms from about 150 to perhaps 350, count-

ing in banks, deposit taking companies and other financial institutions, stock brokers and bullion dealers.

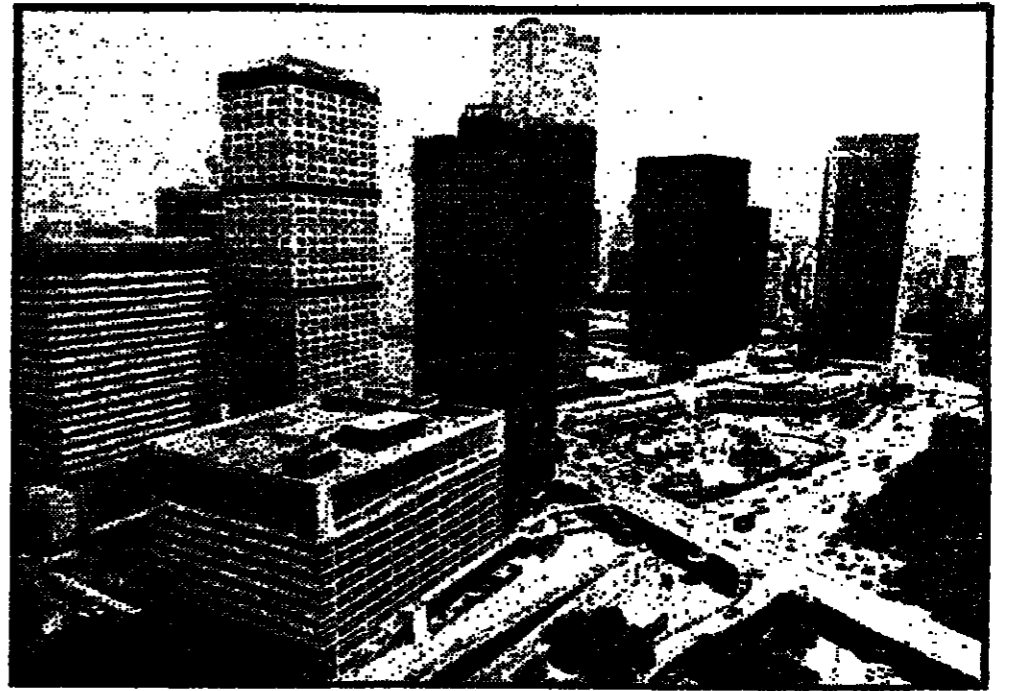
The Government will appoint the founding board, which thereafter will be elected, with one-third of its members standing each year. The Commissioner for Securities will retain supervisory responsibility, but it is intended that the exchange should largely regulate its own affairs through strict oversight of members' positions and financial standing. Dealings by members on their own account will be strictly controlled.

Flourishing

Dr Kim Cham believes there is scope for greatly expanding futures dealings in agricultural commodities and metals as well as financial instruments. His hope is that Chinese trading enterprises and provincial authorities will come to realise that they can hedge their export prices through the exchange for soyabean and sugar, currently traded mainly on a long-term contract basis. If he is right, the exchange might subsequently introduce contracts in cotton yarn, Chinese tea, livestock and basemetals. "We aim to be the market China knows best," he says.

The Commodities Exchange and the authorities have settled on an elaborate structure for the new futures exchange, designed to ensure that its growth is as smooth and orderly as possible.

The choice of the Hang Seng Index as the first financial contract, was made deliberately because it is the most widely followed barometer of Hong Kong's day-by-day economic health, and the promoters of the exchange hope that inves-



There is little doubt that Hong Kong can provide the speculative capital needed to make a futures market come to life. Above: the financial centre

tors will be able to see for themselves how futures contracts can be used to help hedge portfolios of shares. The market will be open to stock brokers firms to deal in the index contract.

Brokers, and for that matter other new members, will initially be confined to one of the divisions of the new exchange until they have satisfied the authorities of their competence to broaden out. Existing member firms of the Commodities Exchange will have trading rights in all divisions, but will need to satisfy more stringent financial conditions end provide far more information before being allowed to move beyond the present range of contracts.

The most important new category of members will be the banks and deposit taking companies which are expected to dominate the financial futures

dealings. Although many bankers feel like their counterparts in London prior to the start of financial futures dealing, that they offer their customers an adequate forward foreign exchange service, they readily agree that Hong Kong has no similar hedging mechanism to protect the financial community against local interest rate fluctuations.

Since the partial linking of the Hong Kong dollar to the U.S. currency last September effectively damped down foreign exchange speculation, local interest rates have been highly volatile, so that a hedging mechanism in the form of futures contracts could prove attractive.

The local banks and DTCs, whose participation in the financial futures market was in effect the condition for official approval, say they are excited

about this prospect, though they wish to see stock index futures well established before further contracts are launched—and before they commit themselves to setting up futures dealing departments, recruiting and training staff, and marketing financial futures to their institutional customers. What seems to be in little doubt is that Hong Kong can provide plenty of the speculative capital needed to make any futures market come to life—the equivalent of the well-heeled "locals" whose existence in Chicago counts for so much.

As one senior banker summarises: "There is no doubt at all that the market can thrive. The important thing is to ensure that it can regulate itself properly and prevent the cowboys from dominating it."

Adrian Dicks

PROFILE: DR. KIM CHAM

Enthusiastic architect of new venture



"I may be indulging in wishful thinking, but if this comes off it could be something very big for Hong Kong." Dr Kim Cham, just for a moment, allows his excitement to show through at the end of a long expedition of the project to which he has devoted several energetic years of his life, the establishment in Hong Kong of a world class futures market.

Dr Kim Cham set out like many other ambitious Hong Kong Chinese on an academic path. After a first degree in economics at Hong Kong University, he took a Master's in business administration at Queen's University

in Ontario, followed by a PhD at Bath, a post-doctoral programme at Harvard, and then a spell teaching accountancy in Australia. On the way he also became a Fellow of the Institute of Banking of Canada.

Returning finally to Hong Kong Dr Kim, who is 35, became head of the department of management studies at Hong Kong University. Yet he says his family—businessmen, traders and investors in stocks, gold and commodities—were still unimpressed by his academic experience, to say nothing of the level of professional stipends. They are also possibly unimpressed

that he heads HK's Rural Council.

Since his appointment as chairman of the Hong Kong Commodities Exchange last year, Dr Kim Cham has had no lack of opportunity to test out either his theoretical grounding in economics and accountancy or his business instincts. On both counts he has been stretched hard.

The Exchange's urgent need was for an independent and authoritative figure to repair its own reputation, after a series of damaging incidents in recent years had called the standing of some member firms and the ethics of the market into question. The new chairman says that improvements in monitoring member firms' positions and financial records remain a top priority, and he believes that most market participants welcome this process.

Investors

Dr Kim Cham also recognised that the Commodities Exchange must make itself more useful to the rest of the financial community, if it was to grow from its present relatively modest scale, by developing new products. The Hang Seng Index, most widely used measure of the performance of the Colony's stock market, is his choice as the first new futures contract. It is already widely followed, entails no complicated settlement problems, and should offer investors in shares a relatively easy demonstration of how a futures contract can be used to hedge a portfolio.

Yet even before embarking on the long process of selling the idea to investors, institutions and to the Hong Kong authorities, Dr Kim Cham found himself devoting many months to writing the software needed to turn the computation of Hang Seng Index from a three-daily calculation into a constant, real time measure of the stock market.

With so much personality at stake, Dr Kim Cham cannot allow this enthusiasm to fore the pace, and plainly the original early autumn target date for trading the stock index contract will need to be postponed for as long as it takes the market to adjust to the Sino-British agreements expected to be published in September. "I would not like us to start with the wide fluctuations. We are determined to develop a unique, regulated market. We don't feel pressed for time to get started."

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U.S. elections
cast shadow
on exports

Textiles

THE MILLS and garment factories in Kowloon and the New Territories are enjoying the sort of boom that brings satisfied smiles to the faces of the people of Hong Kong. Under the influence of the strong upward movement in the American economy, the main market for its goods, Hong Kong's textile and clothing industries have soared upwards in the last year.

And now that a number of aspects of Britain's agreements with China over the future of HK have been settled, some of the industry's worries have been removed. One little-noticed example of this is that China has agreed that the label "Made in Hong Kong" should be retained rather than the "Made in Hong Kong/China" that had been mooted. This may be a small indication of China's intentions towards the colony but it is considered an interesting one.

Surprisingly, the textile side of the business has done remarkably well over the past 12 months. Surprisingly because Hong Kong's own textile business has over the past four or five years been under pressure from low-cost suppliers in the Far East, pressure to such a point that many firms have moved out of the industry. Fears were even expressed that textile production might become a relatively minor sector of the trade.

Resilience

But the past 12 months have seen a resilience in Hong Kong as local manufacturers have fought back. Domestic exports of textiles and fabrics rose by 50 per cent to HK\$2,842m in the first four months of this year, compared with the same period of 1983, while exports of clothing went up by 49 per cent to HK\$12,736m.

In re-exports the textile sector did even better, going up by 59 per cent to HK\$5.6bn compared with a 64 per cent jump in re-exports of clothing and apparel.

The U.S. has continued to dominate export markets, taking almost HK\$500m in the first quarter of this year compared with HK\$2.5bn in January, February and March 1983. This was a rise of some 75 per cent.

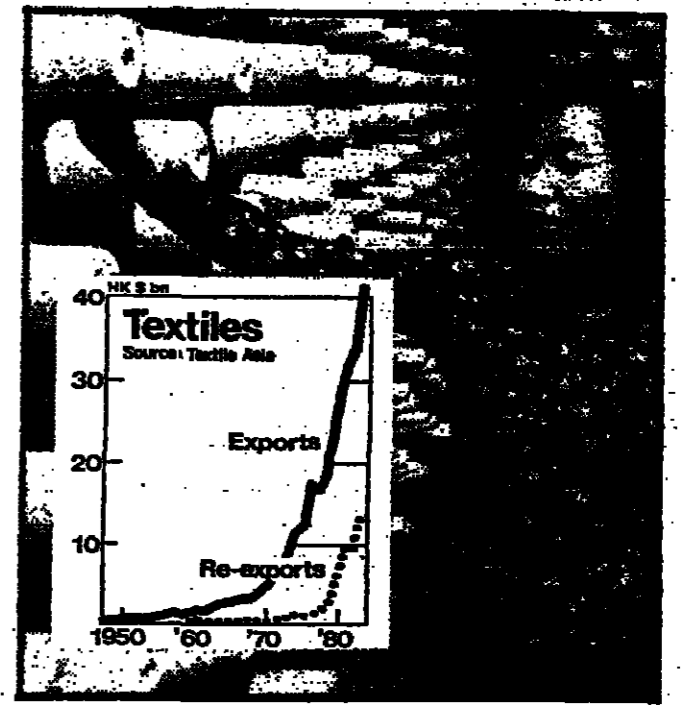
Both West Germany and the UK, the next most important markets, also took more Hong Kong goods, sales to Germany rising by 48 per cent and to Britain by just under 40 per cent. Exports to other high-income countries, such as Holland, Sweden and Switzerland, also did well.

Behind this buoyant situation, though, lie a number of

worries. The most important of these concern America in an election year but there are also worries about the future of the Multi-Fibre Arrangement, the agreement which regulates much of world trade in textiles and clothing, which expires in two years' time. Some people have also expressed the feeling that the General Agreement on Tariffs and Trade may not be doing enough to promote free trade after the present MFA runs out.

Protectionism in America is not a worry peculiar to Hong Kong. It is one that is felt by most of the countries in the Far East which look to the U.S. as a major market.

Election years have always been difficult ones for the low-cost producers because the influential American textile lobby invariably takes the opportunity of the election to squeeze promises out of the presidential candidates. It has never been forgotten in Hong Kong that the Long Term Cotton Agreement, the precursor of the MFA, was extracted from John Kennedy in 1961 when he was first running for the White House.



"calls" on Hong Kong for items such as cotton broadcloth, play suits, sheets and other apparel, for woolen suit-type coats, for man-made-fibre yarns, dressing gowns, nightwear and underwear.

Sometimes the Americans have made a "call" under a heading designated as "other apparel" a category strongly resisted by Far Eastern countries since they say that if the Americans want to renegotiate a particular item they should specifically identify that item rather than lump it under a general heading.

The usual procedure when a "call" is made is for the two parties to discuss what levels of trade the U.S. wants to negotiate and try to reach some sort of *modus vivendi*. If there is too great a gap then the parties may go to the Textile Surveillance Body in Geneva, a committee of Gatt.

Hong Kong has done just that this year. In February, for instance, the U.S. "called" play suits of man-made fibres. It subsequently withdrew the "call" in May after the TSB had examined the case at Hong Kong's request.

Another "call" the U.S. withdrew, at the end of May, concerned wool suit-type coats for men and boys and although it was at one time thought the Americans might take a softer line on "calls" in the second half of the year talks were still being conducted on six of them as recently as July 12.

Not that Hong Kong is alone. India has taken complaints to the TSB concerning cotton coats and woolen sweaters while Pakistan has also been to Geneva on cotton coats and cotton dressing gowns.

At a TSB meeting in May it was felt that the Americans had not proved market disruption concerning imports of some goods from South Korea and a month earlier the body found no damage had been proved against imports from Turkey.

A "call" on cotton broadcloth fabric from Japan was withdrawn in January.

Most of the "calls", though, lead to some cut-back in supplies. The producers need the U.S. market — it is very important for all of them — and they are therefore loath to stand up resolutely to American

pressure. They would prefer to bend with the wind, hoping to recoup ground later.

Hong Kong is worried not just about the "calls" themselves but also about the way in which the U.S. has launched countervailing duty actions and the way in which new and tighter regulations have been drafted to regulate entry of goods into America.

By comparison with its American experiences the colony is a lot happier about the way in which its trade with Europe is regulated. It does not agree with the need for regulation but feels that the European Community at least stands by its promises and agreements.

Restraint 'calls'

"At least you know where you stand with the Community," one official stated. "If it agrees a level of imports then it stands by that agreement. There is something to be said for that."

What Hong Kong wants, though, is free trade. It has a completely open market and wants reciprocal arrangements for itself.

The colony is now looking to the ending of the Multi-Fibre Arrangement when the present one runs out in 1986. When a group of 20 of the leading Third World producers met in Karachi last month they drew up an uncompromising set of conditions for the coming negotiations, which precluded any form of voluntary restraint on their part.

Mr Arthur Dunkel, director general of GATT, attended the conference and was told that the seemingly liberal paper produced by his organisation, which postulated greater opportunity for Third World countries to sell clothes and textiles to the industrialised West, was a disappointment.

The low-cost producers, with Hong Kong in their van, are to press very strongly over the next two years for the abolition of the MFA and in their eyes the actions of the Americans and the Europeans are seen as the last jerks of a dying body.

Anthony Moreton



The booming U.S. economy has brought a sharp recovery for HK manufacturing

This year the U.S. has been welding the big stick. Earlier this month it unilaterally imposed tougher controls over origin labelling, a move which Hong Kong's Secretary for Trade and Industry, Mr Eric Ho, said would cause great hardship for the colony. The U.S. has also been making repeated "calls" on Hong Kong and others to try to stem the flow of imports.

A "call" is the procedure by which the U.S. may seek to renegotiate a bilateral agreement on the amount of goods which Hong Kong can send to the U.S. if it believes its market has been disrupted by imports.

Since the middle of last December the U.S. has made 24

CHRISTOPHER WOOD PROFILES CATHAY PACIFIC AIRLINES

Diplomatic turbulence ahead

ONE QUESTION which will need to be addressed in any Sino-British settlement on Hong Kong is the future of the colony's flag carrier Cathay Pacific.

Appropriately for free-enterprise Hong Kong, Cathay is a private airline, 50 per cent owned by Swire Pacific (which is controlled by the Swire family who live in Britain) and 29 per cent owned by the Hong Kong and Shanghai Banking Corporation.

Famous for its exotic array of Asian hostesses and high standards of service, Cathay, now in its 37th year, is a commercial success story. Last year it contributed a record HK\$600m to Swire Pacific's gross operating profits of HK\$1.55bn, and this year looks set for another record.

However, like Hong Kong, Cathay's future is uncertain. That is because its traffic rights derive from agreements based on British sovereignty over the territory. Traffic rights are based on bilateral treaties between states and so in Cathay's case they are negotiated through the British Government in London.

Cathay's case is put to London through the Hong Kong Government's civil aviation department.

In the past this position has caused concern about potential conflicts of interest, as the British Government also acts for Government-owned British Airways, a Cathay competitor in the Asia region.

With the British Government now keen to make British Airways as attractive a prospect as possible in view of plans to sell off the state airline, Cathay has perhaps had further grounds for concern.

However, such considerations are far outweighed by the constitutional dilemma

posed by Britain's agreement to cede sovereignty over Hong Kong in 1997.

If the Chinese take a hard line on future traffic rights out of Hong Kong, which is quite possible given the natural desire to expand the civil aviation administration of China's own services, there would be little either the British Government or Cathay could do about it.

Traffic rights

Equally it would be foolhardy to allow a highly successful operation like Cathay to be run down just because of a change in Hong Kong's political status.

This has led to speculation that Cathay might negotiate a deal with either British Airways or British Caledonian — the tie up would certainly strengthen either of these two airlines. It would also allow the Swire family to divest itself of a business at a time of record earnings, and reduce its exposure in Hong Kong.

Whether that is its intention is another matter. No one in the Swire group will comment officially on such a sensitive subject.

In the meanwhile Cathay has been steadily building up its routes beyond Asia opening up opportunities to feed increasing passenger traffic into its Asia network. The first expansion came in 1976 with flights to Australia. This was followed in 1980 with the opening up of the successful London route.

The airline is now also flying to Vancouver, Auckland and Frankfurt. In all, the passenger fleet of 18 aircraft covers more than 400 flights a week, generating profits that provide a fitting example of Hong Kong enterprise in action.



Future uncertain: Cathay Pacific aeroplanes on the runway at Hong Kong's airport.

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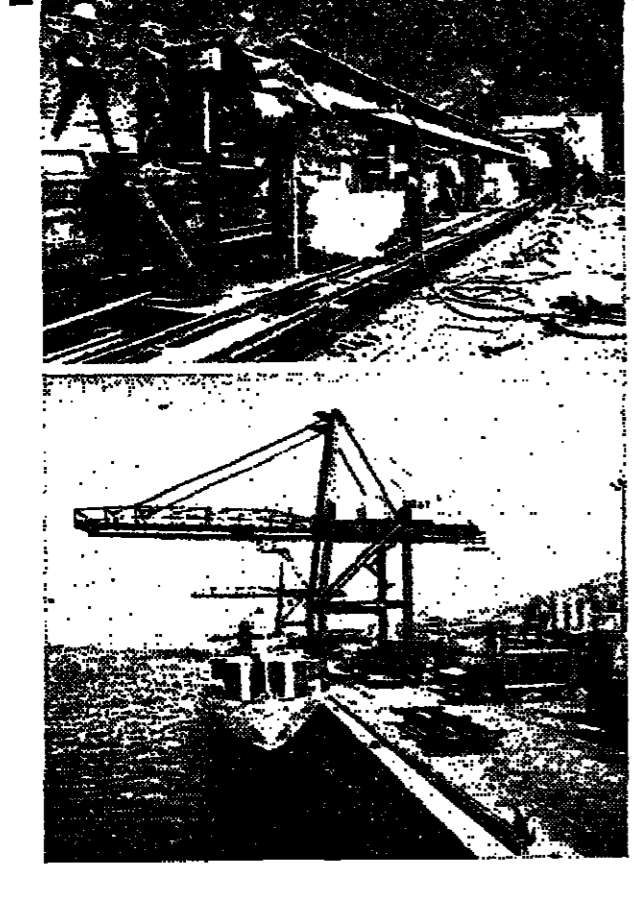
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Above: Hong Kong. Tunnel construction for the Hong Kong Mass Transit Railway Corporation.
Above: Papua New Guinea. Construction of the penstock tunnel for the Warangoi Hydro-electric Scheme.
Left: Trinidad. Overseas container terminal, Port of Spain.

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HONG KONG 13

Concern that consumers may have to pay more Sparks fly over link with Chinese nuclear plant

MENTION ENERGY or electric power in Hong Kong and you can be sure the next question will be about Daya Bay, China's first major nuclear power station, to be built near the Shenzhen special economic zone in Guangdong just to the east of Hong Kong.

Hong Kong is expected to buy about 70 per cent of the output from the nuclear plant, which is to be equipped with two 900 Mw pressurised water reactors, and will cost about \$4.6bn.

Hong Kong's link with the project is the Hong Kong Nuclear Investment Company (HKNIC) has a 25 per cent stake, with the Guangdong Power Company owning the remaining 75 per cent — has been a source of controversy since it was announced. Apart from anti-nuclear lobbyists, many have expressed concern that electricity from Daya Bay will be expensive compared with other conventional sources of electricity.

Hong Kong Electric, the smaller of the territory's two power suppliers, opted to stay out of HKNIC in March this year, leaving China Light and Power as the only Hong Kong shareholder in the project.

'Blank cheque'

HK Electric said participating in the project would amount to "signing a blank cheque." Instead it is building a new coal-fired station on Lamma Island, and says this will be sufficient to meet electricity demand on Hong Kong island — where it has a monopoly of supply — beyond the mid-1990s. The viability of the Daya Bay

Energy

project has since its inception been based on Hong Kong's willingness to buy most of the output. With the Chinese owning three-quarters of the equity, and HKNIC the remaining quarter, it will be financed as 10 per cent equity (about HK\$3.6bn) and 90 per cent debt (about HK\$2.4bn).

While China is expected to supply land and labour in exchange for its stake, it plans to service borrowing costs by selling 70 per cent of electricity output to Hong Kong. Since HKNIC's equity stake entitles it to just 25 per cent of the power output, the rest would be paid for with foreign exchange.

Final agreement on the project is not expected until late this year. This means that the expected contractors — Framatome of France providing the nuclear part of the plant and General Electric Company (GEC) of Britain supplying turbines and generators — must wait on tenterhooks until then. But the agreement is likely to contain a commitment from HKNIC to purchase a certain minimum of electricity, and guarantees of a steady supply of foreign exchange.

It is the open-endedness of this commitment, coupled with what is likely to be quite high costs for transmission lines from Daya Bay, that gave HK Electric the cold feet, and has triggered so many questions about the need to depart from conventional electricity generating technology.

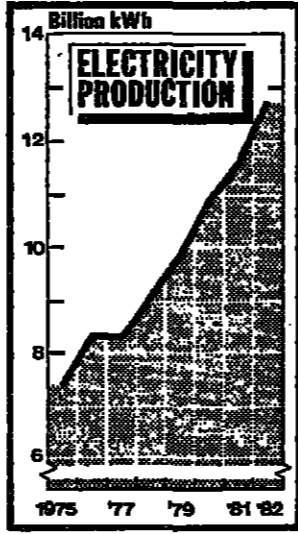
China Light and Power, which holds the monopoly to supply electricity to Kowloon and the new territories, insists it is not neglecting conventional power. It is six years into a major programme to build conventional power plants at Castle Peak in the colony's western new territories, working in a joint venture with Exxon of the U.S. The last of the four dual oil/coal-fired units of the Castle Peak A plant, each with an installed capacity of 350 Mw, will soon be complete.

The joint venture is also constructing Castle Peak B, which will consist of four coal-fired units, each with an installed capacity of 660 Mw. One unit will be commissioned every year between 1986-89.

Expanding needs

Despite this expansion, China Light's managing director, Mr Bill Stones, argues that power from Daya Bay will play an important part in the territory's expanding needs through the 1990s.

Challenging critics who argue China Light should meet that need by building more conventional plants, Mr Stones insists that a power company "should always give itself the maximum flexibility in fuel sources."



He also contests the claim that nuclear power from Daya Bay will be more expensive than conventional power. Despite heavy initial investment — China Light has to pay a quarter share of initial costs amounting to about HK\$3.6bn — a study carried out by the company concluded that unit electricity costs would be lower for the nuclear plant after its fifth year of operation, and that average costs over a 20-year period would be 24 per cent below those for a coal-fired plant.

Endorsing Mr Stones' comments, Mr Peng Shuliy, China's Vice-Minister of Energy, Conservancy and Power, estimates Daya Bay electricity will cost 6.9 cents per unit — about 17 per cent below current charges in Hong Kong. He says the price will be maintained until loans have been repaid about 13 years after commissioning, and will then be halved.

However, these projections assume there will be no delay in commissioning Daya Bay. Critics fear Hong Kong's consumers will be the ones who pay if the arithmetic goes wrong.

David Dodwell

Christopher Wood on the differing policies of the major shipowners

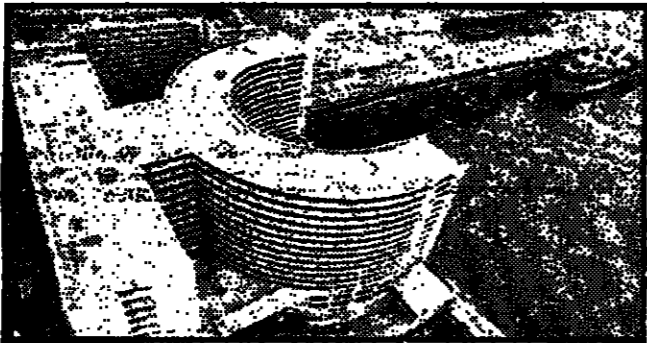
Bears and bulls in uncertain market

Shipping

HONG KONG'S traditionally ultra-low-profile community of shipowners are... different responses to the protracted international shipping slump.

A recent analysis of publicly listed shipping companies by stockbroker Hoare Govett made some interesting observations on the contrast strategies being pursued. However, any attempt to analyse just the publicly quoted interests of a HK owner clearly ignores the considerable assets also held privately.

Perhaps the most notable point highlighted by Hoare is the cautious strategy which has been pursued by World International, the publicly listed vehicle of Hong Kong's best known shipowner, Sir Yue-Kong Pao. Bearish on any prospect of any immediate recovery, World has been selling vessels on the expiry



The multi-story Ocean Terminal on Hong Kong Harbour.

of charters without increasing its new orders. The operating fleet fell from 6.2m to 4.3m dwt during the year ended July 1983 and there have been further sales since.

World's net debt represents only 46 per cent of ordinary shareholders' funds at HK\$1.5bn in September 1983.

Sir YK's recently revealed plans to separate World's property interests from its ship-

ping operations have prompted speculation that the period of disposals may have come to an end. He plans to float off World's shipping interests in a separate publicly quoted company to be called Eastern Asia Navigation.

Sir YK claims the move is an attempt to acknowledge the inherent strength of his shipping operations. At the moment, World International shares reflect the value of the company's property interests

and little else. Shipping industry experts suggest there is more to the reorganisation than that, but until Sir YK's detailed proposals are made public at the end of this month, it is difficult to discern what it is.

By contrast, another major HK group, Wah Kwong, the third largest after Pao and the Tungs of Orient Overseas, has been notably more aggressive, with the company taking delivery of six new vessels in the 15 month period to the end of March this year. Six more are being built for delivery between late 1984 and 1986.

This programme is estimated to retain the fleet's size at more than 2m dwt while making allowance for the sale of old vessels.

Hoare Govett estimates this building programme will cost near HK\$1bn. With 85 per cent of total income still covered by time charters considerably above current spot rates, the added cost will come in 1986 and 1987, by which time charter expires will mean that less than 50 per cent of the fleet will be protected. By this time debt on the ships will also have fallen significantly.

Still, lack of investor enthusiasm was apparent when Wah Kwong abandoned in May, at a fairly late stage, its plans to float a new company called Venture Lines. This was to have comprised 11 ships currently owned privately by the Chan family who run Wah Kwong.

Highly geared

The third major HK owner, the Tungs, hold their quoted interests in Orient Overseas Holdings. This remains highly geared despite the HK\$1.3bn acquisition of shipping, property and insurance assets in December 1982 from the Tungs' private interests, an exercise which increased the share capital by 83 per cent, hitting returns on equity.

One HK company which has undoubtedly suffered severe financial problems is Wheelock Maritime International, the shipping arm of Wheelock Marten, which in 1983 registered a net loss after extraordinary expenses of HK\$29.3m.

With a third of its fleet on the spot market — the result of a speculative ordering binge in 1980-81 — Wheelock has resorted to some imaginative expedients. The shipping magazine Seatrade reported in June that Wheelock Marten and two other Wheelock Marten ship-owning subsidiaries sold 11 ships to Iran in return for US\$100m worth of crude oil, which was subsequently taken by Shell.

The other once major HK shipowning company, Grand Marine, was embroiled in the Carrian debacle and is now reduced to 13 ships as against 65 when at its largest. Nevertheless, it is one of the few parts of the Carrian empire to have survived, albeit in a severely truncated form.

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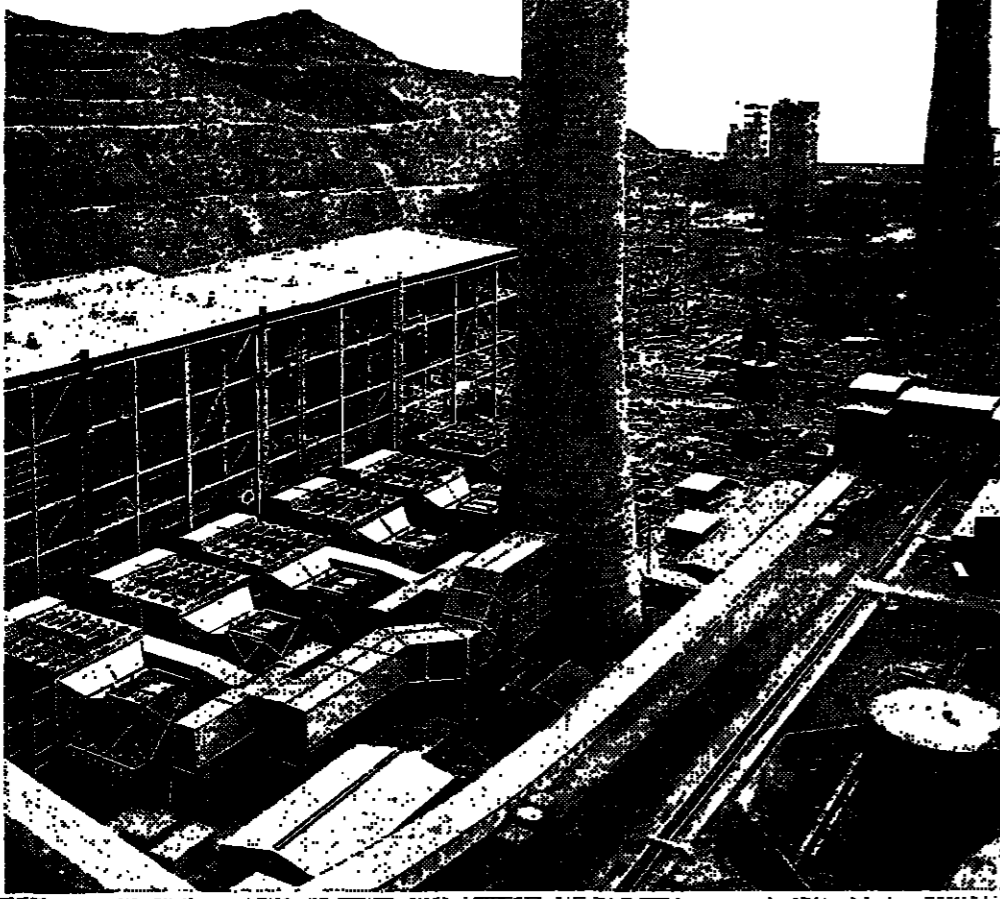
China Light and Power's new generating station at Castle Peak Hong Kong will ultimately generate 4120 MW of electricity.

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HONG KONG 14

Robert Cottrell offers advice on where to find la crème de la crème

Ten of the best, times three

Ten best diversions for visitors

- 1 View of Hong Kong and Kowloon from the Peak
- 2 View of Hong Kong skyline from Kowloon
- 3 Landing at Kaitak Airport by night
- 4 A ride on the Star Ferry
- 5 Man Mo Temple and the old mid-levels
- 6 A day in Macau
- 7 Stanley
- 8 A ferry-ride to an outlying island
- 9 A day at the races
- 10 Ocean Park

This list could scarcely be other than subjective, and has been constructed on the basis of "what should any visitor not leave Hong Kong without seeing or doing?"

Hong Kong's most spectacular attraction is the city itself, seen in panorama. Landing at Kaitak Airport by night is the best introduction. The airport is in the heart of urban Kowloon, such that arriving planes swoop in so low over the city as to seem almost to brush the buildings below; or over the harbour, with ships glittering below and the city of Victoria just a half-mile away on the opposite waterfront. It is well worth noosing an evening arrival flight, and securing a window seat, simply to capture this view.

Still more hypnotic views of Hong Kong are from the peak of Hong Kong Island, and from the Kowloon waterfront. The peak is equally worthwhile by day or night, though not when obscured by fog and cloud.

The view of Hong Kong from Kowloon is much the better at night, and much the most comfortable from the glass-walled bar of the plush Regent Hotel. The glass walls provide a magnificent view; they also ensure the hotel's good "fung shui,"

thoroughly researched. Noble House verges on being or geomancy. Soothsayers say brick walls would have obstructed the spirit-demons which like to swim in and out of the harbour where the hotel now stands.

Hong Kong's waterborne public transport provides some of the city's best-value sight-seeing. The Star Ferry runs between Hong Kong and Kowloon sides of the harbour, charging 70 Hong Kong cents (about 10 U.S. cents) for a first-class seat.

There are two Star Ferry routes. Both leave from the Central District waterfront.

There are two Star Ferry routes. Both leave from the Central District waterfront.

Peaceful

The shorter route goes to ocean terminal, the large modern pier directly opposite. The other goes to Hung Hom railway station, about a mile to the east. The Hung Hom ride is the better for sightseeing, with its sustained open-air close-up of both sides of the harbour-front.

Ferries to the outlying islands are an ideal chance to spend a peaceful hour or so on an open sun-deck, getting just a breath of the South China Seas. Go "de-luxe" class, for which most rides cost around the equivalent of one U.S. dollar, more on weekends.

Choose Cheung Chau or Lantau as a destination. Cheung Chau has a good swimming beach, a friendly local village, and seafood bars and restaurants. Lantau, a larger island than Hong Kong itself, has mountain walks, tea gardens, and even a Buddhist monastery.

On Hong Kong Island, the Man Mo temple on Hollywood Road is a good starting point for walking around an older residential quarter of Hong Kong which has been partially but not wholly razed for new apartment blocks.

The temple is hauntingly old

and smoky; downhill is the old "cat street" area, now an antique shop quarter; nearby Jervois and Hillier Streets are noted for their snake shops. Look for the crates of live snakes outside. Snake gall bladders are crushed into glasses of rice wine to make what Chinese folk-medicine holds to be a powerful aphrodisiac.

The attraction of Stanley is partly the village itself, partly the sights en-route. Take a taxi or a number six bus from the Exchange Square bus park. The bus route plods through Central District and Wanchai, then up and over Morrison Hill to the south side of Hong Kong Island, whose roads are dotted with extravagant Mediterranean-style villas. The coast is a succession of bays and headlands in improbably vivid colours.

Stanley's major feature is its market, selling cut-price clothes (often designer seconds). Eat at "Stanley's" a relaxed seafood French restaurant with a top-floor verandah.

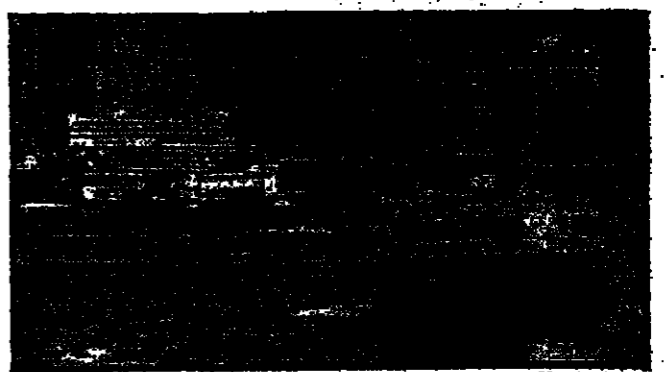
Ocean Park, near the town of Aberdeen on Hong Kong Island, is Hong Kong's major amusement park, recently jazzed up with rides including a large and terrifying roller coaster.

Ocean Park's main attractions are its aquarium and dolphinarium, and an open-air theatre offering morning and afternoon displays of high diving, singing dolphins and performing whales. Best of all, however, are the cable-cars which run the length of the park, high above the headland with gorgeous views of the sea beyond.

A day at the races is a social as well as a sporting event. Hong Kong's betting revenues are the highest of any racecourse in the world. Go to a weekend race meeting at the Jockey Club's new track at Shatin in the new territories.

Finally, the Portuguese enclave of Macao is just 55 minutes away by jetfoil. Its most popular attraction is gambling, though the public areas of the large casinos tend towards the seedy. For non-gamblers, Macao merits a day-trip to explore its historic buildings, and its extraordinary blend of Portuguese and Cantonese atmosphere.

Walk through the old city, take a bus across the harbour bridge, to the islands of Taipa and Coloane, and drink the cheap, refreshing Portuguese wines.



The Star Ferry: good value sightseeing.

Ten outstanding restaurants

- 1 Mandarin Grill, Mandarin Hotel
- 2 Fook Lam Moon, Lockhart Road
- 3 Regent Seafood Restaurant, Gloucester Road
- 4 Lanfashan, New Territories
- 5 Benkyu, Landmark, Central
- 6 La Plume, Regent Hotel, Tsim Sha Tsui
- 7 Lao Ching Hing, Causeway Bay
- 8 Pimochio, Taipa Island, Macao
- 9 Sun Tung Lok, Harbour City
- 10 Bangkok, Bangkok Hotel, Tsim Sha Tsui

To call this list the "ten best restaurants" in Hong Kong would be to invite ridicule. Hong Kong has the best and most diverse selection of Chinese restaurants in the world, of all sizes, prices and cuisines.

The ten restaurants listed are all first class, reliable, and provide English-language menus. Not all are Chinese. The Mandarin Grill, for instance, must come at lunchtimes as close to perfection as any restaurant in the world. Service is fast and graceful, food is fresh and simple.

Fook Lam Moon, is a Cantonese restaurant highly regarded for its seafood. Fook Lam Moon's speciality is abalone—a highly regarded Chinese dish, but expensive. Likewise shark's fin, the speciality of the house at Sun Tung Lok. Shark's fin is regarded as having investigative and aphrodisiac quality. Try a soup of shark's fin with crab meat or chicken, or go to Sun Tung Lok for an early lunch of delicious "dim sum."

On Hong Kong side, go for "dim sum" at the Regent Seafood Restaurant on Gloucester Road.

More northerly Chinese food comes into its own in winter—try the rich, hot winter melon soup at Lao Ching Hing in Causeway Bay, an old-fashioned Shanghai restaurant. Or spare ribs in lotus leaf. Or the seasonal fresh water "hairy" crabs.

Lanfashan is not a restaurant, but a ranch-style village of restaurants up in the north-west of the New Territories. It borders Hong Kong's richest oyster bed. Customers choose fish or seafood alive and swimming from a tank in front of their chosen restaurant.

Do not eat the local oysters raw, if you plan to remain upright for the remainder of your visit. Japanese is Hong Kong's best Japanese restaurant, serving its fresh fish daily. Go in the evening; lunchtimes tend to be fully booked.

Up-market Each of Hong Kong's big hotels has its up-market French restaurant. La Plume at the Regent has the edge because of its beautiful harbour-side setting and picture windows. The food is expensive but well cooked.

At the opposite extreme, the house restaurant at the Bangkok, a small side-street restaurant, offers good authentic Thai dishes, some blisteringly spicy. Pimochio, on Taipa Island, Macao, is a courtyard of trestle tables and electric fans which alone merits the trip across from Hong Kong. Spicy grilled food, cold Portuguese wine. Best to go in a large group, and share a garlicky leg of lamb or a barbecued suckling pig with a plate of fresh prawns to start.

Ten best books about Hong Kong

- 1 Hong Kong 1987 by David Bonavia (South China Morning Post)
- 2 Insight Guide to Hong Kong (Insight)
- 3 Tai-pan by James Clavell (Hodder and Stoughton)
- 4 Myself a Mandarin by Austin Coates (Heinemann)
- 5 Hong Kong 1984 (Hong Kong Government)
- 6 Noble House, by James Clavell (Hodder and Stoughton)
- 7 Hong Kong: Stability and Change by H. J. Lethbridge (Oxford)
- 8 Hong Kong 1862-1919 by G. R. Sayer (HK University Press)
- 9 The Hong Kong Guide 1833 (Oxford)
- 10 The Honourable Schoolboy by John Le Carré (Hodder and Stoughton)

This list is a jumble of pulp fiction, academia and travelogue. The criterion applied in compiling it is to imagine what might be the most valuable single book to be read by a first-time visitor en route to Hong Kong with perhaps three or four hours left before touchdown.

David Bonavia's brief study, "Hong Kong 1987," is a clear winner both for topicality and readability. Hong Kong is obsessed with its uncertain political future. The issue dominates newspaper front pages, and university classrooms, dinner tables and clubrooms.

A knowledge of the background to "1987," when the new territories lease expires, is necessary for the visitor who hopes to identify, however slightly, with everyday life in the territory.

In discussing the expiry of the lease, and Hong Kong's eventual reversion to Chinese sovereignty in 1997, Bonavia gives lively descriptions of aspects of the territory's history, economy and culture.

The "Insight Guide to Hong Kong" is the most intelligent and readable of visitors' guides, but best read as a preparation for arriving in Hong Kong, rather than held for day-to-day use on arrival. It is stronger on descriptive essays than on detailed "how-to" and "where-to" information.

Of the novels, James Clavell's two heavyweights, "Tai-pan" and "Noble House," deal respectively with the founding of Hong Kong in the 1840s, and its cut-throat business tycoons of the 1960s. Both are fast, well-written, and



"Best novel yet about Hong Kong"

too long and too complicated. Tai-pan is a fine factually-based historical novel full of pirates, typhoons, duels, and true love, and the best novel yet written about Hong Kong.

Fans of John Le Carré may hold "The Honourable Schoolboy" to be a better novel as such, but Le Carré's is more of a spy story which happens to take place in Hong Kong than a book about Hong Kong.

Austin Coates served as a young district officer in the new territories immediately after the Second World War, empowered with the welfare of a still largely traditional rural Chinese society. Coates conveys in his memoir "Myself a Mandarin," both the humour of his early naivety, and his gradual education into Cantonese front and values. Coates is the author of several excellent books about Asia, including "City of Broken Promises," a historical novel of Macao; and "China Races," a history of horse racing on the China coast.

Deftly written Of the clutch of history books, H. J. Lethbridge's essays in "Hong Kong: Stability and Change" are deftly-written investigations into slightly offbeat aspects of Hong Kong's earlier decades: corruption; Hong Kong's European working class; the founding of a charitable body to help destitute girls.

In "Hong Kong 1862-1919," G. R. Sayer—father of a former business man of the Hong Kong and Shanghai Banking Corporation—deals governor-by-governor with Hong Kong's formative years, populated with bizarre and colourful figures and incidents.

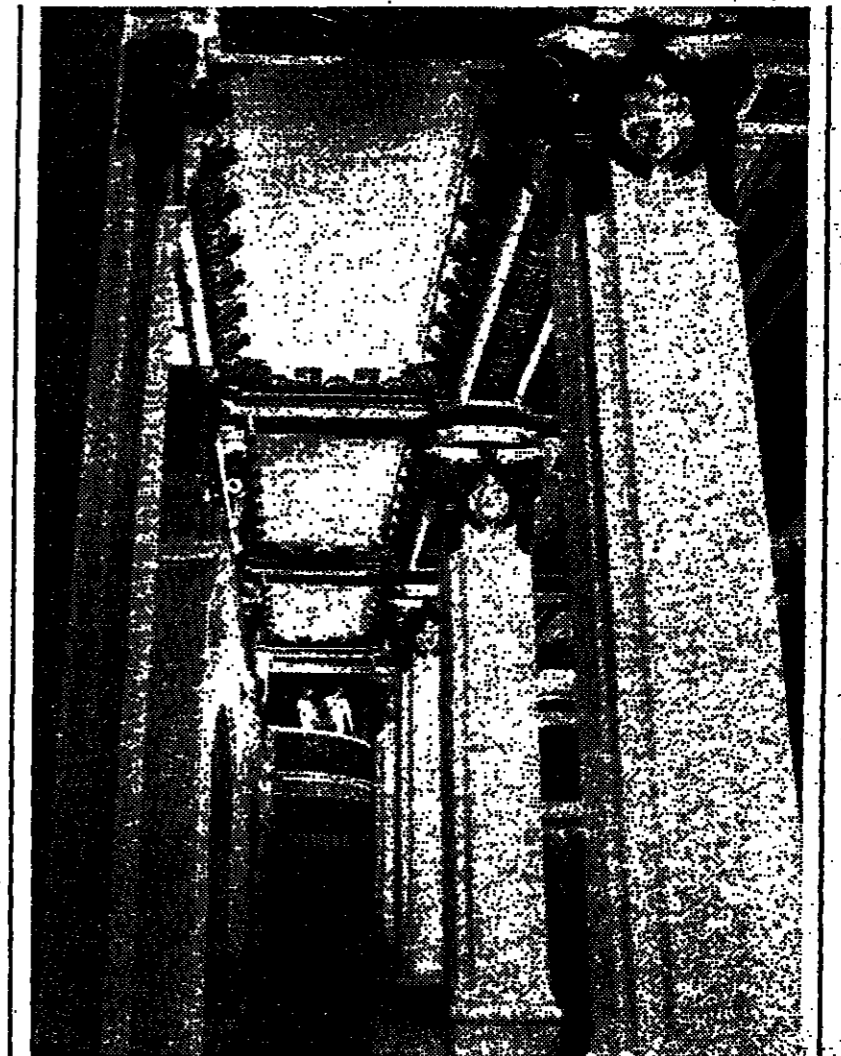
Both books describe a Hong Kong which is just within living memory, and whose echoes still linger on. The physical city is very different, but with a continuity of spirit.

Look out in particular for the selection of photographs in Sayer's book, which include Nathan Road, just 65 years ago, as a booky, tree-lined avenue with scarcely a building in sight.

"Hong Kong 1984" is the Government's official handbook, containing virtually every fact and figure imaginable, be it about trade, finance, rice-farming or satellite earth-stations. A useful but not light read.

"Hong Kong 1893" is a reprint of an original tourist guide published that year, and sold then as HK\$1 (the reprint costs HK\$45). It is linguistic ("For ages prior to 1841, Hong Kong existed only as a plutonic island of uninviting sterility... today it stands forth before the world... a noble monument to British pluck and enterprise"); snooty; and full of fascinating details, such as the "haunted house of happy waiwai" where three directors of Jardine Matheson died within 18 months.

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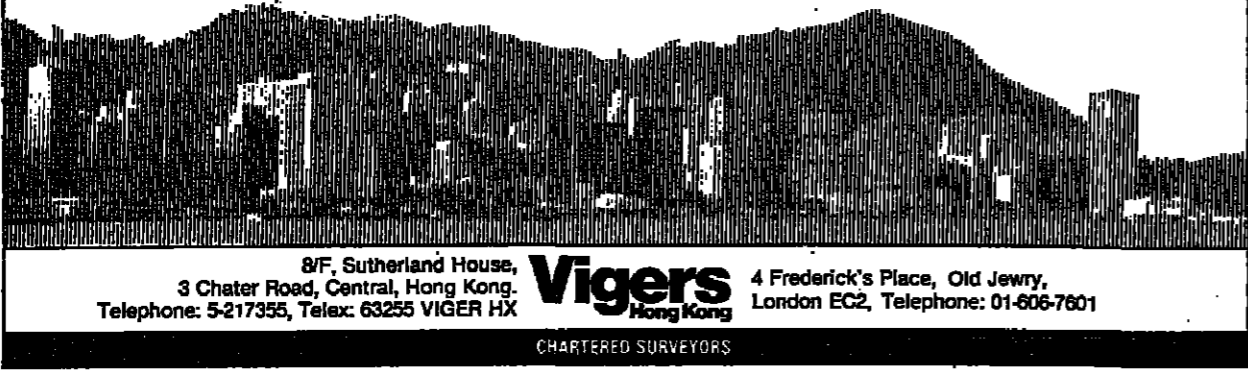


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